THE FREEMAN

IDEAS ON LIBERTY

Freedom and the Car

Paparazzi and Public Property

What's So Bad About Big Government Anyway?

DECEMBER 1997

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PERSPECTIVE

Property—Key to Self-Determination

Private property is at the center of the freedom philosophy. It has been said that all human rights are ultimately property rights. It has been said that the right to life is a property right in one's person. It has been said that without property rights, the right to life is an empty idea. Yet private ownership is an issue that divides people and dictates their positions on many other issues. We can say that the two great competing world views in political theory—individualism and statism—are irreconcilably at odds over the question of property. The conflict is more subtle than it used to be, but it is just as real.

The strictly economic virtue of property is hardly in dispute anymore. The collapse of communism and explicit socialism is interpreted by many people as a victory for private property. Even stalwart socialist economists have conceded this point.

While the economic function of property is now virtually unquestioned, there are political and social aspects to property that deserve attention. Property is vital to privacy. One protects one's privacy ultimately by invoking private property. (See Tibor Machan's article in this issue.) Thus, it is important for such things as freedom of religion (and nonreligion). It is required for freedom of the press and speech. Imagine a free press where private individuals could not own paper, presses, and ink. Property is at the center of every issue relating to human liberty.

Imagine a society in which all property was owned collectively. Actually, that is hard to imagine. Ownership refers to the power to use and dispose of things. Collectives as such cannot use and dispose. Only individuals can do so because only individuals can act. When "society" appears to own property, the actual power of use and disposal rests with a group of identifiable government officials. They are the de facto, if not the de jure, owners. Even in a democratic society, in which the people fill

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political offices by voting, it is misleading to say the people collectively own and control property. The most we can say is that each citizen has a small say in who the de facto owners will be. In contrast, other apparent forms of "collective ownership," such as a corporation, suffer from no similar conceptual problem, since they are the result of explicit contractual relationships entered into by specific individuals. Moreover, and this is critical, each stockholder, unlike the citizen "owner," can sell his share of the company whenever he likes.

In a society in which all property was collectively owned, everyone would be, in fact, an employee and tenant of the government. That's not a comforting thought. Again, the right to cast a vote every four years for the administrators of the public's property would not make these circumstances any more comforting. Everyone would in a significant sense be at the mercy of the state.

To be sure, in a free-market society, many people also will be employees and tenants. But there are two important differences between that situation and collective ownership. First, in the market there is competition among employers and landlords; that process benefits employees and tenants. Second, a person's status as an employee or tenant can be temporary. An ambitious person can save or borrow the money to start his own business and to buy his own home. If the market is fully free, the possibilities for transforming oneself from an employee/tenant to an employer/homeowner are maximized.

This consideration, when added to the fact that private property is essential for a free press, free conscience, and privacy, adds up to a rather strong recommendation for property rights: they are crucial to self-determination. Let's define self-determination as the ability to influence the direction of one's life in a major way within the context of one's talents and capabilities. (Obviously, factors outside of anyone's control may affect one's life.) It should be obvious that private property is an element without which self-determination is impossible. One will have little say over the direction of one's life if the state controls all economic life. In the marketplace, however, one has choices—even if one does not own land or a business. Secure ownership of one's wages and the acquisition through lease of living space provides control over one's own life that cannot be approached in any collectivist scheme. It is no coincidence that collectivists, while sometimes paying tribute to self-determination, don't really like when people assert too much power to determine their life course. (See Loren Lomasky's discussion of autonomy and automobiles in this issue.)

Few people call for full-fledged socialism anymore. Today semi-socialists favor heavy government regulation of property in the name of the environment or social justice or some such reason. But the principle remains. To the extent government regulates the use of private property, it steals the power of self-determination from people. (One example: if the government can wreck your retirement plans by declaring your property a wetland, what has happened to self-determination?) Nominal private property that is regulated by the state does not fully escape the flaws of socialism. Fascism, which is the name of such a system, is more like socialism than it is different. Nazism, that virulent brand of fascism, means national socialism.

If the freedom philosophy is to prevail, advocates of private property will need to make it clear that without full protection of property rights we are all poorer—and not just in the economic sense.

—SHELDON RICHMAN

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THE FREEMAN
IDEAS ON LIBERTY

Freedom and the Car

by Loren Lomasky

Years before the automobile evolved into a transportation necessity, before meandering mudded ruts were replaced by multilaned asphalt, pioneering motorists took to the roads for pleasure. Today tens of millions still drive for pleasure, but increasingly it is a guilty pleasure. From a multitude of quarters motorists are indicted for the harms they leave in their wake. Drivers generate suburban sprawl, exacerbate the trade deficit while imperiling national security, foul lungs and warm the atmosphere with their noxious emissions, give up the ghosts of their vehicles to unsightly graveyards of rubber and steel, leave human road kill in their wake, trap each other in mazes of gridlock, and, adding insult to injury, commandeer a comfy subsidy from the general public. It is only the presence of unconverted cigarette smokers that deprive them of the title Public Nuisance Number One.

Barring a radical re-engineering of America, there is no prospect that we will any time soon toss away our car keys. Cars (and trucks) are here to stay. But as the automobile enters its second century of transporting Americans from here to there, momentum for curbing its depredations grows. Construction of significant additions to the interstate highway system has ground to a halt. Lanes on urban roads are declared off-limits to solo motorists. Federal fuel-efficiency standards require automakers to alter their mix of product to emphasize lighter, less gasoline-hungry cars. Taxes on fuel have been increased only modestly, but if critics of automobiles have their way, America will emulate Europe and the tax will go up by a dollar or more per gallon. The revenues will be directed toward more mass transit, pollution relief, and research on alternate modes of transportation. Some argue that employer-provided parking should be taxed as income to the employee or disallowed as a business expense to the provider. Others advocate following the model of Amsterdam by barring nearly all automobiles from entry into the center city. And supplementing policy proposals is moral suasion. In the name of social responsibility, individuals are urged to car-pool or avail themselves of public transportation; scrap their older, fuel-intensive vehicles; and to eschew unnecessary automobile trips.

Why this assault on the automobile? I have no wish to deny that some of the charges advanced by critics are true. Automobile carnage is indeed dreadful. The number of people killed each year on our roadways far exceeds the total who succumb to AIDS. Automobiles do pollute, all to some extent, some much worse than others. Anyone who has ever been trapped in rush-hour gridlock, fuming inside at the delay while being engulfed by the fumes outside spewing from ten thousand tail-

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pipes, knows that the simple job of getting from here to there in one's automobile can be the most stressful part of the day.

But even accepting all the above, it does not seem sufficient to explain the intensity of opposition directed toward the automobile. There are costs associated with any large-scale enterprise, and so a critique that merely reminds us of the nature and extent of these costs is only half useful. What is also required is, of course, a statement of the benefits derived from the enterprise and a plausible accounting of whether those benefits do or do not exceed the costs. How to identify and measure costs and benefits of automobile usage poses very difficult methodological problems that I shall not address here. I do note that the overwhelming popularity of the automobile is itself prima facie evidence that, from the perspective of ordinary American motorists, the liabilities of operating a motor vehicle are more than compensated by the benefits. Just as theorists speak of people "voting with their feet," we can count those who vote with their tires. And the vote is overwhelmingly pro-automobile.

Critics may contend, though, that the election has been rigged. They can maintain that it is the absence of public transportation and compact neighborhoods integrating commerce, industry, and housing that force us so often into our cars. And even if it is the case that each of us values the options and mobility that automobile transport affords, we might disvalue yet more the stress, delay, and pollution imposed on us by others.

There is at least this much merit to the critic's case: a purely behavioristic appraisal of automobile usage is insufficient for evaluating it. We need also to think more intently about how to classify and understand as a distinctive human practice the action of *driving a car*. Opponents of the automobile argue that the most telling way in which to understand this is: *creating a public bad*. That is the appraisal I shall dispute in this essay. My focus will not be on the many practical uses to which the automobile is put (driving to work, car-pooling the kids, buying groceries). Rather, I shall concentrate on what is intrinsic to automobility. As such, automobility is complementary with *autonomy*: the distinctively human capacity to be self-directing. To be autonomous is, minimally, to hold values—ends taken to be good as such—and to have the capacity to direct oneself to the realization or furtherance of those ends through actions expressly chosen for that purpose. This is what motorists do. Therefore, insofar as we have reason to regard self-directedness as a valuable human trait, we have reason to think well of driving automobiles.

I am making a strong claim. Automobility is not just something for which people in their ingenuity or idiosyncrasy might happen to hanker. Rather, automobile transport is a good for people in virtue of its intrinsic features. Because automobility is a mode of extending the scope and magnitude of self-direction, it is worthwhile.

Moreover, the value of automobility is strongly complementary to other core values of our culture, such as freedom of association, pursuit of knowledge, economic advancement, privacy, even the expression of religious commitments and love. If these contentions are even partially cogent, then opponents of the automobile must take on and surmount a stronger burden of proof than they have heretofore acknowledged; for they must show not only that instrumental costs of marginal automobile usage outweigh the benefits, but they also must additionally establish that these costs outweigh the *inherent good of the exercise of free mobility*. That heightened burden will be difficult indeed to satisfy.

Movement, Choice, and Human Potential

Concern about automobiles may be a modern phenomena, but analysis of the distinctive nature of automobility is not. For Aristotle, being a self-mover is the crucial feature distinguishing animals from plants and, thus, higher forms of life from lower. That distinction is itself preceded by a yet

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more basic one that separates the organic realm from that which is lifeless. To be alive is to be possessed of an internal animating force, *psyche*. The customary translation is "soul," but in the context of Greek biology that is misleading. For us "soul" tends to carry a theological and thus elevated sense, but in classical Greek thought it marks the divide between inert things and those imbued with a vital principle. At the highest level is the rational soul, the intelligence exhibited among the animals only by man.

The conception of motion has a wider scope than traveling from place to place. We retain residual traces of this broader meaning in expressions such as "a moving experience" and in the etymological history of "emotion," but in the philosophical language of the Greeks the more inclusive sense is primary. Any transformation of a subject from the potential to the actual with regard to some quality is deemed motion. Movement, therefore, is not simply descriptive of getting from here to there but is normatively rich. To move is to progress—though, of course, it can also be to backslide. For people there is not only a better and worse but a *chosen* better or worse toward which we deliberately direct ourselves. Crucial to the elevated status of human beings as compared to other beings is intelligent automobility.

Commuting and Community

Automobility is, by definition, promoted by the automobile. The complementary nature of autonomy and the automobile is only slightly less evident. Being a self-mover in the latter part of the twentieth century is, to a significant extent, being a motorist. Because we have cars to drive we can, more than any other people in history, choose where we will live, where we will work, and separate these two choices from each other. We are more able to avail ourselves of near and distant pleasures and to do so at a schedule tailored to individual preference. We are less constrained in our choice of friends and associates by accidents of geography. Our ability to experience an extended immediate environment is notably enhanced. The automobile is, arguably, rivaled only by the printing press (and perhaps within a few more years by the microchip) as an autonomy-enhancing contrivance of technology.

No one who ever has been caught up in rush-hour gridlock will maintain that commuting to and from work is unalloyed joy. Competing with tens of thousands of other motorists for scarce expanses of asphalt can be reminiscent of the Hobbesian war of all against all. For critics of the automobile this is not a negligible point. But neither are its implications entirely clear-cut. Just as worthy of notice is how many people voluntarily subject themselves to that ordeal. Have they not realized how much time they are wasting behind their steering wheels? Such inadvertence isn't plausible. In their judgment, the costs of commuting are amply compensated by the benefits. The more the critics emphasize the magnitude of the costs, the more these critics underscore, knowingly or otherwise, the extent of the benefits.

Commentators from the Greek philosophers to Adam Smith to Karl Marx have noted that the nature of the work one does largely shapes the quality of life one leads. To do work suited to oneself in a satisfactory environment is for nearly all of us a great good, while to perform alienating labor under unfriendly and unhealthy conditions is a correspondingly great evil. Similarly, to reside in a comfortable and functional dwelling situated in a neighborhood one finds hospitable is also a considerable good. For most people throughout human history, neither occupation nor place of residence has afforded more than a negligible range of choice. One did the work one's father or mother did, or to which one had been apprenticed, or which was the kind of work available in that place. And one lived where one must or where one could.

The increased affluence and openness of liberal capitalist society has vastly expanded the range of choice. Previously one either lived close to one's work or else on a commuter rail line. But motorists are not bound by the geography of the New York,

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New Haven & Hartford tracks. Depending on how much time they are willing to invest in transit, they can live at considerable distance from where they work while also being emancipated from mass-transit rigidities. Cultured despisers of suburban existence can and do decry this circumstance, but millions of Americans (and, increasingly, the rest of the world) disagree. It can hardly be denied that the suburbs are an object of choice by those who live there. To respect the autonomy of persons is to acknowledge that expanding their options with regard to work and residence is a plus.

Nineteenth-century socialist reformers decried industrial capitalism's exploitation of workers. Although it could reasonably be contended (as F. A. Hayek famously did in *Capitalism and the Historians*) that workers voluntarily abandoned their rural domiciles for the factory town only because they regarded it as a net improvement, it must nonetheless be conceded that their situation was not enviable. The work was grueling, and opportunities for self-directed choice were minimal.

Yet no syndicalist scheme or string of workers' cooperatives remotely approaches the automobile as an instrument of emancipation. Insofar as it extended the feasible range of commuting between residence and work place, the coming of the motor car augmented the bargaining power enjoyed by workers. In theory, under a legal regime of free contract, workers always enjoyed the right to terminate their employment when they wished to do so, but in practice this liberty often proved discouragingly costly. Automobility significantly lowered those costs. Detroit has done more for the liberation and dignity of labor than all the Socialist Internationals combined.

Liberation can also be observed when viewing the employment-residence nexus from the other direction. The ability to choose where one will live makes a considerable difference to the exercise of self-determination. Life in the suburbs is not inherently better than life in the central city, but it is different. To the extent that one possesses a real opportunity to choose between them, one is thereby able to give effect to significant values that shape a life. If one is mobile, the question of where to live is answered by an act of positive choice rather than through inertia or extraneous constraints such as the location of one's place of employment.

Choice of residence is a major avenue through which Americans exercise their right to free association. One thereby decides with whom one will live. And perhaps even more importantly, one decides with whom one won't live. An ethic that endorses autonomy must acknowledge that, the content of individual choices aside, it is a good thing that people are able to make up their own minds and then act on that decision concerning where they will live.

Mobility and Knowledge

For much the same reasons that automobility and autonomy are good things, so too is knowledge. Like self-moving, knowing affords us a firmer grip on our world. Indeed, choice and knowledge are complementary. We might say that choice without knowledge is blind; knowledge without choice is impotent.

Automobiles enhance mobility, and mobility enhances knowledge. Insofar as the area within which one is able to move is increased, so too is the range of one's knowledge-gathering capacities. Knowledge need not be grand or profound to be valuable in itself and as a complement to choice. If I drive north along the lake to see how the autumn leaves have turned and whether the Canada geese are still milling or have flown, then I may have gained experience that I take to be inherently valuable. Driving through the various neighborhoods of a city reveals where the bakeries and hairdressers and Thai restaurants are located, who is having a garage sale this week, and which parts of town are becoming distinctly seedier.

When the range within which one moves about becomes extended, so too does the range of one's potential base of knowledge. And the automobile is the quintessential

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range extender, not only by lengthening the trips one can take but also by multiplying the number of available routes. Cars do not only go to malls and theme parks but also to libraries, universities, and museums. Urban centers of learning are rendered accessible on a regular basis to those who live many miles distant.

The Wheels of Privacy

Another complement to autonomy is privacy. Some quantum of privacy is requisite for self-determination. The automobile is for twentieth-century American society the quintessential bastion of privacy. For many of us it's the Honda rather than the home that is the castle. Ironically or not, those minutes between home and office on a freeway clogged past capacity with tens of thousands of other cars may be one's most private time of the day.

Social planners are wont to gnash their teeth at the number of motorists who could arrange to car-pool to work but instead "inefficiently" take up roadway space with a solitary-occupant car that could carry several times as many people. Diamond lanes and other inducements have only a limited effect on average occupancy statistics. This may be viewed as a failure of policy, but it can also be seen as a reasonable and in some ways estimable response to the valid human desire for privacy. Privacy in virtually all its forms, including that afforded by the automobile, is a good to which significant costs come attached. I shall not dispute here whether the costs incidental to automotive privacy exceed the benefits; my point is that there are genuine benefits from driving solo. Any cost-benefit analysis that aims to be unbiased must acknowledge that privacy is a good and then proceed from there.

Being alone is one aspect of privacy, but it is not, I believe, the most central. What is more salient is a (re)gaining of control over one's immediate environment. I may be surrounded by other people, but if I am able to determine to a significant degree what they shall be allowed to perceive of me and know about me and impose on me, then to that extent I have retained a private self. Surely one reason for the fondness people often hold for their cars and for automobility in general is the scope afforded with regard to that sort of control. Pushing one button turns on the radio. Pushing another changes the station, lowers the volume, turns off the radio and switches to the tape player. It is one's own choice whether to listen to news reports, Beethoven, Beatles, or nothing at all. Next to the switches for the stereo are those for climate control, windshield washing, blinking one's lights, perhaps even a cellular phone. Individuals exercise control over the internal environment of their cars in a manner that is not possible with any alternate mode of getting around. Once we focus attentively on the good that is privacy, it will no longer appear obvious that rush-hour gridlock on highways is an unacceptably high price to pay for the opportunity to be one's own man or woman behind the wheel of one's own car.

The Road from Serfdom

In light of all these considerations, why has motoring fallen under such a cloud? Three possible reasons suggest themselves. First, although the critics acknowledge the range of goods afforded by automobility, they have identified accompanying evils that in their view drastically outweigh the goods. Second, the critics may be oblivious to the various autonomy-enhancing features of automobility. Third, they may recognize these features but regard them as goods of a much lesser status than I have claimed or, indeed, even as detriments.

Could the automobile's critics have failed to observe that cars support autonomy? If these effects were slight and subtle that might be a reasonable supposition. But we have seen that they are not, that when compared with alternate means of transportation the automobile stands out as the vehicle of self-directedness par excellence. Not to observe this would be like visiting the mammal area at the zoo and failing to notice

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that the elephants are rather larger than the zebras, camels, and wart hogs.

I am convinced that the automobile's most strident critics are well aware of the fact that automobility promotes autonomy—and that is precisely why they are so wary of it. To be in the business of formulating policy is to be professionally predisposed to consider people as so many knights, rooks, and pawns to be moved around on the social chessboard in the service of one's grand strategy. Not all analysts succumb to this temptation, but many do.

People who drive automobiles upset the patterns spun from the policy intellectual's brain. The precise urban design that he has concocted loses out to suburban sprawl. If people rode buses and trains whenever they could, less oil would be burned and fewer acres of countryside would be paved over. Perhaps communities of an old-fashioned sort would be restored. Perhaps the central city would come alive again other than between the hours of 9 and 5. Perhaps.... But why go on? These lovely visions are blocked by the free choices of men and women who resist all blandishments to leave their cars in the garage. They wish to drive. Automobile motoring is good because people wish to engage in it, and they wish to engage in it because it is inherently good. So the intellectuals sulk in their tents and grumpily call to mind utopias that might have been. □

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THE FREEMAN
IDEAS ON LIBERTY

Paparazzi and Public Property

by Tibor R. Machan

In the wake of the crash that killed Princess Diana, many folks were hell-bent on convicting paparazzi anywhere they could be found. Hollywood celebrities flocked to television talk shows and even news programs to accuse tabloid publishers of complicity in various crimes that they say come about because of the sleazy journalism the tabloids practice.

As this is written, it appears the paparazzi who chased the car in which Princess Diana met her demise may have helped cause the crash. There are also the matters of the driver's apparent inebriation and the passengers' failure to stop the speeding; the paparazzi could have been dealt with differently.

Deeper questions remain. Do journalists have a right to gather the news by engaging in the kind of conduct they allegedly exhibited on the night of Diana's death? Why aren't outspoken celebrities vigilant in the defense of individual rights apart from their own privacy concerns? Nevertheless, the issue of the apparent clash between press freedom and privacy is important. How should the press's freedom be conceived of, especially in public places?

The press, of course, has no right to invade anyone's private property to obtain stories or pictures. But what about public property? Journalists and photographers are able to operate on vast public domains of streets, parks, beaches, highways, and waterways. Because public areas exist, the press—including the paparazzi—are able to operate in intrusive ways largely with impunity.

If a paparazzo wants to invade someone's home or business to take pictures, that can be prevented, or at least discouraged, by the threat of prosecution for trespass. More directly, a security guard can expel a trespasser. But if he hangs out on the closest "public" street corner waiting for a prominent person to emerge from his home, it would be problematic to chase the photographer because public property supposedly belongs to us all.

Why "Public" Property?

The first point to be made then is that there is no reason for the existence of so many large public, meaning tax-funded, areas. In a free society, public spheres would be confined to where government houses its legitimate activities: military bases, courthouses, and so on. Even roads do not have to be public. They could well be the property of various transport, recreation, or other firms and would be better off for it. (Professor Walter Block explained this nicely in his essay on private roads in T. R. Machan, ed., *The Libertarian Reader* [Rowman & Littlefield, 1982].)

As long as public domains are so perva-

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sive, albeit unnecessarily so, some way of dealing with the clash of claims to their use must be found. In the United States and many Western countries, it is widely thought that when people occupy a public space, they can freely engage in any kind of conduct that does not involve direct personal injury to others, such as assault, rape, battery, or murder. On a few occasions that doctrine has been challenged, for example, when panhandlers or abortion protesters have made it nearly impossible for others to go about their business. Huge legal battles have ensued. (In one celebrated case, the American Civil Liberties Union sued on behalf of a homeless man of highly dubious personal hygiene, who sat in a municipal library glaring at other people. The library officials expelled him, but the man and the ACLU prevailed in court.)

Thus the legal right of those who use the street for transportation may clash with the legal right of those who use it for demonstrations or protests. It has been difficult to figure out which legal rights deserve greater protection. The institution of "public property" creates this problem. It generally doesn't exist on private property, where the owner sets the rules. (An exception is shopping malls, where some courts have said that owners cannot prohibit the distribution of leaflets.)

The same problem faces relatively free societies regarding the paparazzi and other news gatherers. Indeed, at times members of the press are convinced that their goal of gathering information justifies behavior that is quite aggressive and invasive, not to mention cruel and insensitive (as when they chase relatives of the victims of a plane crash to ask, "How do you feel about losing your children in this tragic accident?").

The Right to Know

The issue is often misunderstood when people think in terms of the "public's right to know." There is no such basic right at all—it's a myth. No one has a right to be informed by others unless they have freely committed themselves to provide such a service. Then and only then does one have a (contractual) right to get the information in question. And the taxpayers, by virtue of their relationship to the government, may be said to have a right to know what the government is up to. On the other hand, if the public had a general right to know, holders and providers of information would, in effect, be the slaves of the public.

We know that if a person, celebrity or not, is doing something newsworthy in his private home, the press has no right to enter the property to investigate. If the public had a "right to know," this would not be the case. But scouting for news on private property without the owner's permission is an invasion of privacy and a violation of rights. No alleged "right to know" trumps such genuine basic rights.

Public property, again, muddies these principles. Theoretically, public spaces belong to everyone, so whatever goes on there in some sense is the public's business. But is that the same as the public's right to know?

The provisional solution to the clash of uses on public property, say, between the press and celebrities walking down the street, involves something that may not please the paparazzi: the law ought to clearly designate the purpose of public realms and make sure they are devoted primarily to that purpose. For example, if the paparazzi interfere with a celebrity's appropriate use of public property, for example, driving on a road, it would be (and is now) legally actionable.

The same, of course, would apply to any obstructive demonstration. When the Teamsters used public roads to block transportation to and from UPS centers, or when the Hare Krishna at public airports intrude on passengers going about their business, they are using public areas for objectives unrelated to the purposes for which those areas exist, namely, transportation. Likewise, in parks and on beaches, recreation comes before agitation and other activities. Until these assets are privatized, the only solution to the clash of uses is to consider the purposes served by public areas. These are usually expressed in the semi-

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democratic procedures of federal, state, county, and city governments. For instance, when a sports arena is built by and for the public (taxpayers), in line with the outcome of a referendum, sports events must be treated as its primary function. Other uses are secondary.

A Responsible Paparazzi

The implication is that if the paparazzi, while on public property, cannot engage in their special activities without obstructing others who are using it for its primary purpose, they are violating rights. Furthermore, if they harm others or contribute to a dangerous situation, they are culpable. A steady prosecution of such conduct could abate some of the adverse, at times disastrous, consequences of the often zealous pursuits for which people use public spheres.

The press in America enjoys a special status among all the professions: it is explicitly, constitutionally protected from government regulation. This is, of course, good as far as it goes; all honest work should be protected from government regulation. But despite that status, people in the news-gathering business should not get the impression that for them everything is permitted. By having nearly unlimited access to public realms, the press already has the benefit of lower costs for its operations. Its raw material, the news that originates in public spaces, can be obtained without having to purchase it, quite unlike any other commercial undertaking. If the paparazzi had anything to do with Princess Diana's death, perhaps it will draw attention to this distorted legal situation and the dilemmas of so-called public property. The basic rights of the press will be best protected when all individual rights are protected. □

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THE FREEMAN
IDEAS ON LIBERTY

Where Does Law Come From?

by Bruce L. Benson

The legal scholar Lon Fuller defined law as "the enterprise of subjecting human conduct to the governance of rules."[1] It includes basic rules of conduct as well as institutions or mechanisms for clarifying, changing, and applying the rules. Furthermore, as David Hume observed almost two and a half centuries ago, a primary motivation for developing rules and governing institutions is the attempt by rational individuals to find ways to expand their personal well-being or wealth in the face of scarcity.[2] But, as Franz Oppenheimer explained, there are two ways for individuals to expand their wealth: "economic" processes, which consist of cooperative voluntary interaction, including production and trade; and "political" processes, which take wealth produced by others through the use or threat of force (or guile).[3] Understanding the evolution of law requires recognition of the conflicting incentives to establish rules for the purpose of creating wealth versus rules for the purpose of expropriating it.

Wealth-Seeking and the Evolution of Law

How can law evolve from self-interest? Competition over the use of scarce resources is inevitable. Unilateral efforts to turn a property claim into actual ownership requires a sufficiently strong threat of violence to exclude others from making conflicting claims. Since several individuals are likely to have similar incentives with regard to any scarce resource, violent competition could consume vast amounts of resources. Is such a Hobbesian "war of all against all" inevitable? No. For instance, individuals with similar capacities for violence (and therefore small expectations of winning a war) might agree to recognize an equal initial distribution of private-property rights to scarce resources. The incentives to live up to that agreement are largely positive: as a result of reciprocal commitments to respect property claims, individuals expect to grow richer by focusing resources on productive activities rather than on protective or aggressive activities.

Of course, a Hobbesian war can arise if some parties believe they are probably strong enough to take more wealth. But historical and anthropological evidence suggests that the earliest men lived in groups that were largely cooperative.[4] This is not surprising since people's capacity for violence was probably similar until wealth began to accumulate; thus, mutual deterrence tended to prevent the taking of resources, leaving cooperation as the only potential means of increasing wealth.

Even when one party's capacity for violence is substantially greater than that of others, continual violent conflict is still not likely to occur. Indeed, if an individual has an absolute advantage in violence, he

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will be in a position to induce others to accept slavery, thus concentrating all property rights (including the ownership of other persons) and wealth in the hands of that one "authority." Of course, he will also have to maintain his position of dominance to assure continuation of that uneven distribution of rights and wealth. After all, the slaves' incentives to accept the situation are "negative"—they accept subjugation only when they expect it to be better than the high-probability alternative of losing everything.

Between the extremes of voluntary agreements and slavery many other nonviolent possibilities exist. Those possibilities entail forms of extortion, or "protection" from the very individuals demanding payment rather than from other threats. Some protection rackets involve large payments (for example, tribute or taxes), while others are characterized by dispersed private-property rights and modest payments to someone with a comparative advantage in violence.

It may well be that a person choosing to pay for "protection" could produce sufficient counterforce to overthrow the extortionist. But if the payment demanded is not too great, an individual capable of producing considerable wealth could decide that the cost of counterforce is too high to make it worthwhile. But if so, the extortionist is constrained in how much he can demand.

Let's consider a spontaneously evolving voluntary legal order before turning to the implications of extortion and law.

Law Through Cooperative Institutions

Voluntarily recognized "trust rules," to use Viktor Vanberg and James Buchanan's terminology, essentially involve explicit or implicit agreements to adopt predictable patterns of behavior, or norms, in dealing with a limited number of identified individuals.[5] Since the primary source of conflict is scarcity, trust rules focus on the allocation of property. Each individual better secures his property claims by accepting an obligation to respect the property rights of others, who of course are expected to reciprocate. As this occurs, people can make plans over longer periods and get the highest return from their resources.

But how does governance occur? Imagine an evolutionary process in which individuals recognize the high cost of unilateral violence as a means of establishing property rights. Individuals with similar capacities for violence and facing the likelihood of repeated dealings (for example, with neighbors) will form tentative bilateral relationships that include promises to recognize each other's property boundaries. If individuals significantly benefit from a continuing relationship, a violation of a rule can be "corrected" through the so-called "tit-for-tat" strategy. Essentially, the wronged party responds in a similar fashion (so the response need not be violent) in the next round in order to punish the wrongdoer, but then signals a willingness to return to behavior consistent with the rules if the original violator will do the same. The rule violator sees that if he wants the benefits from ongoing cooperation he must follow the rules.

Another option, when there are competitive alternatives, is to simply refuse to deal again with someone who has proven himself untrustworthy. As more bilateral relationships are formed and a loose-knit group with more elaborate reciprocal dealings develops, such competition arises. Thus, individuals can cooperate unconditionally with anyone known to be trustworthy, while refusing to deal with anyone known to have violated a trust rule with anyone in the group. If information spreads quickly and everyone spontaneously responds to a rule violation, the violator is excluded from interaction with all members of the community. Social ostracism is the result, and it can be a significant punishment. In fact, an individual's incentives to exact physical punishment are weak when competitive alternatives to the violator exist and information is easily spread. Investments in communication mechanisms substitute for investments in the capacity for personal violence. Indeed, Vanberg and Buchanan

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explain that once a group is formed based on intermeshing bilateral trust rules, "solidarity rules" (obligations that are expected to be upheld because everyone benefits) can also develop.

Solidarity rules include "inform your neighbors about individuals who violate trust rules" and "boycott untrustworthy individuals." They evolve spontaneously as individuals substitute ostracism for violence. Related rules, such as "look out for your neighbor" and "inform everyone when a rights violation occurs," tend to follow, and multilateral cooperative policing to insure property rights ultimately evolves. Members of close-knit groups often do things to prevent theft against fellow members and cooperate in pursuit and prosecution when a theft occurs.[6] Individuals who do not follow solidarity rules (for example, who do not contribute to cooperative policing) may also be ostracized, so free-rider problems are not significant.

Threats and sanctions are not the primary incentives to recognize rules in an evolving cooperative group. Important positive incentives also develop. Unexpected drastic losses of wealth (from fires, storms, accidental death of the breadwinner) can create incentives to turn to theft. To avoid this, a group may establish insurance arrangements to protect people from occurrences that might force them to steal in order to survive. Self-interested individuals will voluntarily help someone in distress in order to encourage him to continue respecting their property rights. They might do so with the reciprocal assurance that they can receive help if they need it in the future.

Other institutional arrangements also evolve. Because policing is imperfect, someone accused of a rule violation may not be guilty and may dispute the charge. In such an event, "prosecution" could be violent, but in a close-knit group violence can have significant costs, particularly if opinions about guilt are mixed. Those costs can be reduced by developing nonviolent means of resolving disagreements and clarifying property rights, and by making acceptance of a judgment relatively attractive for the loser.

For instance, a mutually acceptable mediator or arbitrator might be chosen from among the most reputable members of the community or from a pool of dispute-resolution specialists. Since this third party must be acceptable to both disputants, "fairness" is embodied in the dispute-resolution process. The loser might also be allowed to buy his way back into the community by paying appropriate restitution, rather than being subject to physical punishment or exclusion. Of course, rulings can be backed by threats of ostracism, but in general, resolutions are likely to be accepted because even losers recognize that the long-term benefits of behaving according to expectations probably exceed restitution payments (or the costs of exclusion). Many historical and anthropological studies demonstrate that restitution and voluntary mediation or arbitration are common institutions in the legal systems of close-knit groups.[7]

All such institutional developments tend to be spontaneous and unplanned. The result is a movement toward increasingly secure private property rights under "customary law." Indeed, as Robert Ellickson writes, "There is abundant evidence that a . . . group need not make a conscious decision to establish private property rights. . . . People who repeatedly interact can generate institutions through communication, monitoring, and sanctioning."[8] Thus, no central authority with coercive powers is necessary to produce law in such a cooperative social order. Coercion is only required when there are strong incentives to resist, generally because the law grossly discriminates between individuals or groups in the allocation of rights and wealth.

Extortion and the Evolution of Law

Suppose an individual is better than others at wielding violence and chooses to take the wealth produced by them. The result is a "negative sum" undertaking since the forcible transfer and any efforts to resist it consume resources that could be used to

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create new wealth. Nonetheless, such an individual may expect to be better off by appropriating wealth than by cooperating, producing, and trading.

Obviously, that person will develop a reputation for using violence. The reputation can be valuable because the mere threat of violence may be sufficient to obtain wealth. Once such a reputation develops, however, his potential for entering cooperative relationships is reduced, since anyone with whom he does not have a prior trust arrangement will doubt his word. Therefore, the decision to take wealth often involves a permanent commitment to extortionist behavior. Moreover, he will wish to establish an environment that will produce a steady income. He will establish rules and institutions to minimize the costs of continual extortion. Among other things, this implies the extortionist will attempt to establish a monopoly in violence. After all, if a victim can find some person or cooperative group to protect him, the extortionist's ability to extract wealth will be severely limited. Thus, the extortionist must erect barriers to keep people from escaping his "jurisdiction."

The scale of violence required to compete for and maintain power will be greater than any single individual can produce, of course. Therefore, an "entrepreneur" in extortion will generally establish a "firm," which will use part of the seized wealth to buy services from others who have a comparative advantage in violence but less entrepreneurial skill. (These will include strong-arm enforcers, army or police personnel, and producers of the tools and symbols of violence.) Such "protection firms" will require internal cooperation, so the dealings between people within the firm will differ from the dealings with the targets of extortion. Many cases of organized aggression involved cooperative communities with established trust relationships, such as those described above, that were persuaded by an entrepreneurial leader (for example, a tribal war chief) that they could get rich through raids or conquest. But if powerful enough, such a firm itself can threaten the entrepreneur, so he will have incentives to keep the organization decentralized (raising the cost of collusion) and to create competition for the booty among the factions.

The extortionist can also help avoid rivals by buying cooperation from potentially powerful individuals. As a result, the protection racket can combine extortion of the weak with protection of the relatively powerful. To maintain power, the extortionist also has incentives to redistribute wealth as the relative power of subgroups within his jurisdiction changes. The redistribution would aim at obtaining the support of subgroups that could become powerful enough to threaten his power. Thus, while mutual insurance arrangements in cooperative systems aid the weak who may have little incentive to respect property rights, extortion-based systems aid the powerful who otherwise have little incentive to respect the leader's claim to sovereignty. Of course, since there is a potential danger that the poor also could organize and revolt, the leader might give them something too. But transfers to the wealthy or powerful will predominate, and any transfers to the poor will mainly flow from others who lack power.

The extortionist might even develop institutions through which the competition for transfers can be channeled and observed. Focusing such competition in "advisory councils" or "representative assemblies," for instance, could reduce the cost of monitoring and dealing with groups. As the exchange of support for privileges is institutionalized, powerful subgroups might see their interests linked to those of the "sovereign." An effective entrepreneur in extortion might also be able to lower his costs and legitimize his claim as the monopoly source of rules and interpretation by establishing "adversarial" dispute-resolution forums (courts or assemblies) backed by threats of violence.

The political means of gaining wealth is parasitical on the economic host, so an extortionist faces a tradeoff. Large levels of extortion in the short term reduce productivity and the potential for income in the

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long run. How much the leader takes will depend on how long he expects to hold power. He is likely to recognize some private-property rights and allow some cooperative organizations in order to create incentives for producing more wealth. Nonetheless, the threat of appropriation means that all property is in a common pool, open to some extent to political competition.

To the degree that the extortionist succeeds in legitimizing his claims to sovereignty and preventing people from fleeing, his subjects will see him as the single legitimate source of rules in the geographic jurisdiction. The sovereign may attempt to design and impose his own rules, but he is also likely to claim to be the source of the customary laws already in force because they are low-cost mechanisms for facilitating the creation of wealth, which he can then appropriate. His "law," however, must be superior to customary law. Many early codes of kings were largely codifications of customary law but with changes to permit the sovereign to dictate the distribution of wealth.[9]

Many such claimants to sovereignty must have succeeded, because people generally believe the state is the source of all law. Most (if not all) modern nation-states clearly evolved from nonstate extortionist institutions—for example, tribal war chiefs became kings and kingdoms became nation-states. The "law" of the state serves many conflicting functions, simultaneously harassing and protecting private interests, extorting wealth and encouraging its production, maintaining the class structure and cutting across classes, integrating parts of society and disintegrating other parts. Law (in a positive sense) and justice (in a normative sense) are not synonymous.

Political Distortion and the Evolution of Law

The power of a sovereign almost never becomes absolute, but the cooperative groups' customary law, a product of "spontaneous order," is always distorted. As F. A. Hayek explained, "spontaneous order arises from each element balancing all the various factors operating on it and by adjusting all its various actions to each other, a balance which will be destroyed if some of the actions are determined by another agency on the basis of different knowledge and in the service of different ends."[10] The extortionist and his officers cannot fully anticipate the consequences of their actions because those actions inevitably cause a long train of readjustments.

The possibility that the extortionist will expropriate wealth (tax) reduces the producers' long-term planning and the expected gains from cooperation. Furthermore, the legitimization of coercive rules and institutions stifles the development of trust relationships; the motive for honoring commitments becomes avoidance of punishment by the sovereign. Therefore, fewer voluntary organizations are formed and those formed often perform fewer functions. To the degree that such functions are demanded by powerful political interests, the sovereign may try to force continued production, and if that fails, he may attempt to produce them through his growing bureaucratic apparatus.[11]

Even in a society with a very strong ruler, however, some cooperative groups will exist. Those groups may still be able to enforce some of their own norms, even when doing so violates the sovereign's "law" (for example, through vigilantism). If, in his effort to monopolize law, the sovereign prevents practices that voluntary groups want to use (formal agreements to ostracize, third-party dispute resolution, restitution instead of punishment), the groups may resort to secrecy and the sovereign may use violence to prevent what he sees as crime.[12] When politics dominate a society, it may not emerge very far from the Hobbesian jungle.

Some voluntary groups are strong enough to maintain formal alternatives to the extortionist's legal system. This is most likely to happen where the benefits generated through voluntary interaction are large or the relevant group operates across different jurisdictions, creating competition among authorities. The international merchant

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community of medieval western Europe is an example.[13] Similarly, modern international commercial law remains a largely voluntarily produced and enforced system of customary law, despite many attempts to subjugate it over the centuries.[14]

Conclusion

Many other examples of parallel systems of rules and institutions exist. These are cases in which a political system is established, but alternative predominantly customary systems support most behavior.[15] It is generally within those groups that "law" and "justice" are synonymous, or at least complementary concepts.

The lesson here is that law and governance are natural institutions that arise out of people's interest in prospering through production, the division of labor, and trade. They do not depend on a central coercive authority for their genesis. States can arise when a powerful group, bent on institutionalized extortion, co-opt and alter existing customary law to serve its own particular interests. □

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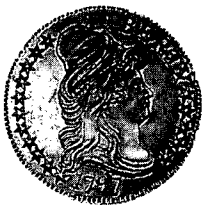
At What Price Will The Gold Standard Return?



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Will Retirement Become a Personal Responsibility?

With Social Security benefits projected to exceed the system's revenues within 15 years, young Americans are increasingly skeptical that the government will take care of them when they reach their mid-sixties. That's a healthy development because in a free society, responsibility for one's retirement is too important to relinquish to the vagaries of politicized programs.

A recent report from the Board of Trustees of the Social Security Trust Fund projected that payroll tax revenues alone will be insufficient to pay current benefits as early as the year 2012. The system can draw upon its revenues plus interest on the surpluses of previous years for a while longer, but when that's all gone, we'll be staring gargantuan tax hikes in the face. Without cutting benefits, the trustees estimate that payroll taxes would have to quickly rise from the current 12.4 percent to a whopping 18.8 percent.

Of course, don't rule out the prospect of a reduction in benefits, which might come in one or more disguises such as raising the age at which one can begin collecting checks. This much is clear: trusting to politicians to take care of you in your old age is costly, unpredictable, and therefore dangerous. Those who warned of this when the system was established in 1935 were pilloried as heartless and stingy but they now look like the wisest prophets of their day. It's too bad many of them are not around in 1997 to help us untangle the mess they foretold.

As a solution, advocates of the privatization of Social Security often point to Chile's remarkable success in that very endeavor. But Americans need not look any further than Great Britain for some of the same lessons. British workers, optimistic about how they'll fare in their senior years, are relishing the prospect of a pool of pension funds greater than that of all other European countries combined.

Why do the British have far less anxiety about their financial future than their American counterparts? They are not, as a Heritage Foundation report recently pointed out, "locked into a rigid, financially troubled government-run system." A few years ago, Britain partially privatized its retirement program, allowing workers to invest a portion of their payroll taxes in private pension funds. While Americans are not permitted to invest any amount of their 12.4 percent Social Security payroll tax in private equities or retirement plans, three-quarters of all British workers are enrolled in private plans through their payroll taxes.

Since 1986, Britons have been earning double-digit rates on their retirement funds while today's young working Americans must hope to live well beyond the age of 100 before their "investment" in Social Security begins to pay off. What's good for the workers is good for the Treasury as well.

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The Heritage Foundation report, "Social Security Privatization in Britain: Key Lessons for Reformers," says that by restructuring and privatizing their pension system, allowing consumer choice and competition among private pension plans, and controlling entitlement spending, the British have amassed a pool of financial assets (or capital) second only to the United States and Japan. Officials are even predicting that at the rate things are going, Britain will pay off its entire national debt by the year 2030!

While both Chile and Britain are valuable models, Americans have domestic examples to learn from. Three counties in Texas had the good sense to get out from under the Social Security pyramid scam years ago.

A loophole in the original Social Security law allowed municipalities the freedom to opt out, an escape hatch Congress closed in 1983. Three Texas counties took advantage of it while it was in effect and as a result, retirees under the private plans in use there are getting several times the monthly retirement check they would have received had they stayed in the government system. Recently, the Oregon legislature overwhelmingly passed a resolution calling on the federal government to allow states to get out of Social Security.

Of course, those who worship government, and who think that you and I can't be trusted to take care of ourselves, are working their PR machine overtime to preserve the precarious status quo. A new study from the Cato Institute, however, is giving the privatization side plenty of ammunition with which to rebut the statists.

Would putting your retirement nest egg in the private sector be too risky? The Cato report, "Common Sense Objections to a Market-Based Social Security System: A Response," shows that even if a worker invested his payroll taxes during the stock market's worst performing quarters in history, he could still retire better with private savings than with Social Security. Over the last 70 years, a period that includes the biggest stock crashes in history, stocks and bonds have averaged an annual rate of return of over nine percent—far in excess of the average annual Social Security return of a paltry two percent.

Would paying the cost of private pension fund management make the idea too expensive? It's true that the government spends less to manage Social Security monies than private firms spend to manage their assets, but that's because the government invests poorly in its own low-paying securities. You get what you pay for. Paying private managers to generate a far higher return is a good investment, pure and simple.

While it is encouraging to see privatization of Social Security become a genuine topic of wide discussion, every plan put forth so far retains a core element of compulsion. "A privatized system," writes one prominent limited-government advocate, "should require a mandatory contribution to ensure that those opting out of Social Security are actually saving money for their retirement." It's a sad commentary on the many decades of increasing reliance on government that even many friends of freedom believe that Americans might not save if the government didn't order them to.

Social Security, make no mistake about it, will ultimately be privatized partially or wholly. America will not forever lag behind Chile and Britain just so it can maintain an antiquated and politicized pension system that's headed for bankruptcy. It's time that Americans take back a responsibility they should never have trusted to government in the first place, one way or another, the sooner the better. □

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THE FREEMAN
IDEAS ON LIBERTY

The Efficiency of Natural Rights

by Wendy McElroy

The Hobbesian contention that an almost biological conflict of interest exists between human beings, who must compete for scarce necessities, is a stumbling block for those who espouse natural rights. Certainly, it is a common avenue of attack used by critics of natural law. They demand to know how, in a Hobbesian state of nature, where one man's life requires the death of another, can it make sense to speak of a natural right to life, liberty, or anything else? Nature herself seems to argue against the possibility.

The goal of such an attack is to reduce natural rights to a code of morality divorced from the nature of man and of reality. Yet these are precisely the two foundations upon which any useful principle addressing human action must rest.

Few contemporary thinkers devoted more energy to the study of human action and its underlying principles than Ludwig von Mises. He called that study praxeology. In his touchstone work, *Human Action: A Treatise on Economics*, Mises, although no believer in natural rights, suggests an ingenious approach by which its theory is strengthened by a Hobbesian world-view, rather than destroyed by it.

Mises's Reversal of the Hobbesian Argument

In part four of *Human Action*, "Catallactics or Economics of the Market Society," Mises speaks of how economic cooperation within society springs directly from a Hobbesian state of nature. Indeed, he presents "a war of all against all" almost as though it were a prerequisite for the evolution of a market society. In the section headed "The Harmony of the 'Rightly Understood' Interests," Mises argues that because many or all people want shoes these items become the focus of large-scale production, which makes shoes more widely available at lower cost than small-scale production could achieve. He concludes, "The fact that my fellow man wants to acquire shoes as I do, does not make it harder for me to get shoes, but easier. . . . The catallactic competition of those who, like me, are eager to have shoes makes shoes cheaper, not more expensive" (Yale University Press, 1949, p. 670).

Summing up the general implications of this insight, Mises concludes: "What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement." The intensification of social cooperation "becomes paramount and obliterates all essential collisions. Catallactic [or economic] competition is substituted for biological competition" (p. 669).

To those versed in Austrian economics, the preceding passage may seem to be an almost trite statement of the beneficent influence of the division of labor upon the

Wendy McElroy is author of Sexual Correctness: The Gender-Feminist Attack on Women *(McFarland, 1996).*

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availability of cheap goods. But Mises derives a deeper message from the social dynamic. "The very condition from which the irreconcilable conflicts of biological competition arise—viz., the fact that all people by and large strive after the same things—is transformed into a factor making for harmony of interests. . . . This is the meaning of the theorem of the harmony of the rightly understood interests of all members of the market society" (pp. 669–70). The "irreconcilable conflicts of biological competition" perhaps even create the harmony of interests among human beings.

Although the mechanism of the free market may seem to reconcile what Mises referred to as an "irreconcilable" conflict, the fact is that the conflict remains. Men will still desire the same scarce goods. What the free market solves are the problems that might attend such shared desire. Instead of being translated into expressions of conflict, the shared desire becomes the motive force behind expressions of cooperation.

Through this ingenious logic, Mises reverses the usual conclusion of the critics of liberalism. It is precisely because man lives in a Hobbesian world that a market society naturally arises. Instead of killing each other to secure the means of survival, human beings naturally cooperate out of pure selfishness for no other reason than that a market society offers otherwise unimaginable access to cheap goods. As a far more peaceful arrangement, the market society also provides the stability necessary for people to make long-range plans, such as those implied in raising a family.

In essence, Mises uses the division of labor as a principle of resolution. The problem is mankind's war of all against all, which, many philosophers assure us, dooms our species to live in constant violence. But through the division of labor, this Hobbesian conflict of interests can be, and naturally is, resolved. The resolution through cooperation reduces the likelihood of real biological conflict among human beings to a minimum. Mises reveals that social cooperation is a vastly more efficient means to achieve self-interest than social conflict.

Benjamin Tucker on Property

The nineteenth-century individualist Benjamin R. Tucker made an important contribution to these matters. Tucker first raised the issue while considering the nature of property, specifically, intellectual property. On one side of what evolved into a heated debate, advocates of copyright and patent argued that intellectual property was wealth whose ownership had been acquired either through discovery or through labor. Lysander Spooner, for example, defined property as "wealth, *that is possessed—that has an owner*; in contradistinction to wealth, that has no owner, but lies exposed, *unpossessed*, and ready to be converted into property, by whomsoever chooses to make it his own" (*Law of Intellectual Property,* p. 15; emphasis in the original).

But several aspects of intellectual property bothered Tucker. For example, how could one claim ownership of an intangible thing or transfer that ownership? Such considerations led him to address the question "what is property?" in more philosophical terms.

Tucker believed ideas arose within man and persisted within society only because they served a need or answered a question. As an illustration of this theory, consider a universe parallel to our own but which runs along different metaphysical rules. The inhabitants of that alternate universe fulfill their needs simply by wishing for goods or other forms of satisfaction. Food magically appears in their hands, clothes miraculously drape their limbs, and a bed pops into existence under their tired bodies. In such a society, it is unlikely that the concept of money would evolve, simply because that peculiarly human concept arose as a means to solve the problems of transferring and storing wealth—problems that exist in our universe but not in the parallel one.

Tucker used the same problem-solving approach to analyze the concept of property. He asked: what is it about the nature of our universe and the nature of man that gives rise to the concept of property in the first place?

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Tucker concluded that property arose as a means of resolving conflicts caused by scarcity. In our universe, almost all goods are scarce, and this leads to an inevitable competition among human beings for their use: a Hobbesian state of nature, if you will. Since the same chair cannot be used in the same manner at the same time by two individuals, it is necessary to determine who should use the chair. The concept of property resolved that social problem. The owner of the chair should determine its use. "If it were possible," wrote Tucker, "and if it had always been possible, for an unlimited number of individuals to use to an unlimited extent and in an unlimited number of places the same concrete thing at the same time, there would never have been any such thing as the institution of property" (*Liberty* VIII [1891], p. 3).

Here again, the state-of-nature argument has been reversed. The Hobbesian worldview, rather than destroying the possibility of property, is precisely what gives rise to the concept.

Combining Mises and Tucker

How do the insights of Ludwig von Mises and Benjamin Tucker apply to natural rights? In *Human Action*, Mises argues that irreconcilable biological conflicts between human beings can lead—and may naturally lead—to a state of cooperation. But what is the mechanism through which human conflict is resolved into human cooperation? In the pages of his nineteenth-century periodical, *Liberty*, Tucker argued that principles, ideas themselves, are problem-solving devices that arise to address man's needs, including such competing needs as the desire for scarce goods. Why call those principles "natural rights"? The answer is that they are claims derived from necessities dictated by the objective nature of man and of reality.

How does the principle of rights as problem-solving devices apply to specific rights? Consider the natural right known as freedom of speech.

Human beings value society because it provides them with great benefits, not only material goods and emotional sustenance, but also information and knowledge, both of which are necessary to life. Useful information can be extremely difficult to obtain since the truth, falsehood, or utility of ideas is not as intuitively obvious as the ripeness or rottenness of an apple. History is replete with absurd ideas that eventually proved to be true.

Obtaining knowledge is made more difficult by the fact that no one has a monopoly on truth or insight. And no one knows how useful any particular idea may eventually prove to be. For example, when mathematicians invented the imaginary number i, the square root of -1, they were thrilled by this entirely abstract construct. Electrical engineers were also thrilled. Little did mathematicians suspect that the concept was the missing and invaluable tool to describe how alternating currents flow through a circuit. The utility of any idea can be judged only with reference to the user's unique, subjective purpose.

Since information and knowledge are necessary to life, the question becomes: how can human beings maximize the chances of obtaining this survival good? One alternative is to allow only true or valid statements and arguments to circulate. But this presupposes an absolutely impartial and omniscient entity that would regulate this flow. It also presupposes a God-like awareness of the use to which every idea will be put.

In the absence of such an entity, the best solution to the problem of maximizing information is to let all information flow. Let all human beings have the right to speak so that the worth of their words can be judged. In this manner, freedom of speech becomes a principle of resolution. Although free speech certainly does not guarantee truth, the chances of getting good information is more likely to occur in a society that respects free speech than in one that censors.

Similar arguments can be made for the other specific natural rights.

Disproving Cases

Whenever a theory is proposed, disproving cases quickly follow. If natural rights are

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problem-solving devices that are necessitated by the state of nature, it will be asked, what of those conflicts that cannot be resolved in this manner? Do they not invalidate the theory?

The answer is no. The above-sketched approach postulates natural rights not as moral truths, but as social tools to solve the problem of human needs and human conflict. For this theory to be "proven"—that is, for natural rights to be seen as desirable principles—it is necessary only to demonstrate that they are more efficient than any other competing system of problem-solving devices.

Nevertheless, we should not ignore disproving cases. In general, the sorts of conflicts that are immune to resolution by natural rights fall into two broad categories: moral dilemmas and emergency situations.

The first category—moral dilemmas—is most commonly found in textbooks on ethics or posed by professors who wish to puzzle their students with an allegedly profound moral problem. The presented dilemma usually involves a situation akin to the following: by pushing a magic button, you can eliminate all heart disease in the world. But by doing so, you will cause the death of an innocent stranger. The question is: morally, should you push the button? The conflict here is that in order for a great many people to live, you must kill an innocent person. This is almost a definition of a state-of nature dilemma: one person's life necessitates the death of another.

Such puzzles are not profound moral problems at all: they are philosophical sleights of hand. To take the button-pushing scenario seriously you would have to inhabit a universe so vastly different from ours that your moral code would not even remotely resemble the one you hold today. After all, your morality has been constructed upon the realities as you know them. You have derived a code of behavior based on certain assumptions about the nature of the universe and your own nature as a human being. These assumptions did not include a magic button that causes both miracle cures on a global level and instant unexplainable deaths. If the universe ran along principles that included magic buttons, you would undoubtedly have had an entirely different code of behavior from the one you have now.

If natural rights are tools for addressing the realities of our universe and our nature, then changing the realities that determined the content of rights will—of course—reduce their usefulness or render them irrelevant. To dismiss natural rights on such grounds is like declaring a hammer to be useless because it cannot pound water into shape.

In essence, these sorts of moral dilemmas are perplexing not because they constitute moral problems, but because they constitute metaphysical ones. The moral dilemma being suggested—if it would be a moral dilemma at all—would exist only in another universe that ran by rules inapplicable to our own.

The second category of a disproving instance is not so easily dismissed. These are emergency cases in which the life of one human being literally requires the death of another. The most famous emergency case is undoubtedly the lifeboat example: two men are adrift in a lifeboat without supplies and unless one of them cannibalizes the other, they both will die of starvation. I fully agree that, in these circumstances, natural rights will probably be ineffectual as a tool of resolution.

Two points should be weighed regarding emergency cases, however. First, such scenarios present an extraordinary challenge to every system of social organization. No system provides an answer that would allow both men to live; no system offers a resolution that would prevent someone's death. As such, the real question is not whether natural rights can resolve a lifeboat situation, but whether natural rights address the situation better or worse than competing systems. Frankly, I think all systems of social resolution fail equally at this point.

Second, true emergency cases, in which your life requires another's death, constitute a minuscule percentage of the social conflicts you will encounter during your lifetime. Indeed, most of us will never be in

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a lifeboat situation. It makes no sense to accept or reject the social tools of daily life on the basis of how well they address highly improbable emergencies that will probably never occur.

Conclusion

Natural rights are not only problem-solving devices. They are also moral principles that can be rationally defended. I see no tension in holding both views side by side. Indeed, if a theory is true, or universally applicable, it would be surprising to discover that there was only one useful way to approach it. Many intellectual paths should lead you in the same direction.

The conception of social principles as morally neutral problem-solving devices is meant merely to explore the more practical aspects of natural rights, and to provide new answers to old criticisms, such as that embodied in Hobbesian state-of-nature arguments. □

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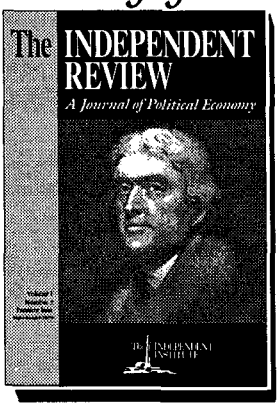

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THE FREEMAN
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The Future of the Union Movement: Clues From the UPS Strike

by Charles W. Baird

The first Monday in September is Labor Day. However, the media, both print and broadcast, seem to think it is Union Day. This year, as the media's Union Day approached, the two most-quoted and most-televised personalities were John Sweeney, president of the AFL-CIO, and Ron Carey, president of the Teamsters. They boasted of the victory of the Teamsters over United Parcel Service (UPS) last August and proclaimed the beginning of a resurgence of the American union movement. They were wrong.

The overwhelming majority of American labor is union-free. Only 10 percent of the private-sector work force is unionized. That number has been declining since 1953, when it was 36 percent, and it will continue to decline. By 2000 it will be, at most, 7 percent, the same as it was in 1900. Neither the UPS strike nor all the bluster of Sweeney, Carey, and their surrogates about bold new ventures in union organizing can stem the tide. The future of the American union movement as we know it (at least in the private sector) is decay. In contrast, the future of the American labor movement is increasing prosperity based on competition and entrepreneurship.

Economists have always understood that a labor union is merely a cartel. It is a group of sellers of labor services in collusion to eliminate competition among themselves and to try to quash competition from others. The unions' rallying cry has always been, "Take wages out of competition."

Competition is the enemy of all cartels. Even if a union can impose discipline on its own members, it always has to contend with union-free workers and union-free firms. In the modern American economy, with substantial (albeit insufficient) deregulation in hitherto heavily unionized industries—for example, trucking and airlines—even unionized firms cannot pass above-market wage costs forward to customers. Moreover, competition is increasingly global in scope. Every entrepreneur in every country has the potential of causing unexpected changes in market conditions to which American firms and American workers must respond.

Firms and workers under the yoke of Sweeney-style unionism are too inflexible to respond adequately to rapidly changing market conditions. And John Sweeney knows it. That is why he and his agents in

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Congress always struggle against free trade. As free trade expands, Sweeney-style unions must wither.

A Worker Victory or a Union Victory?

The 1997 strike of the Teamsters against UPS certainly looked like a union victory. UPS capitulated on the two key issues in the dispute—converting part-time jobs into full-time jobs and preventing UPS from withdrawing from 21 Teamster-controlled multi-employer pension funds and setting up its own fund for its own workers. However, it never looked like a victory for all UPS workers. First, the additional full-time jobs were to be created by combining large numbers of part-time jobs. Thus, many of the 75 percent of part-time workers who didn't want full-time jobs were hurt. Second, if UPS had set up its own pension fund for its own workers, all beneficiaries would have received 50 percent higher pensions than they do in the Teamsters' multi-employer plans.

One clear winner in the strike was, presumably, Ron Carey, whose earlier election as president of the Teamsters was under a cloud of suspicion concerning illegal campaign financing. (I guess his defense was that everyone does it.) Because of its past record of corruption, Teamster elections must be certified by a federal elections overseer. Right after the strike, the overseer, Barbara Quindel, announced that a new election had to be held. Carey knew of Quindel's decision before he called the strike on August 4. He knew he would have to stand for re-election against his rival, James P. Hoffa, the son of the notorious Teamster leader of the 1970s. The strike was an ideal way for Carey to prove his machismo to Teamster voters. I have no doubt that was a major reason why he called the strike rather than continue negotiations. After the strike Carey also raised pension benefits in the midwestern states, the area in which Hoffa's support is strongest. (At press time, the new election had not been held.)

Striking a Blow Against UPS Workers

Despite the general impression, the UPS strike was no long-term victory for the company's employees. Before the strike, UPS had an 80 percent market share in package deliveries in the United States. Although it had always been unionized, it had never before been subject to a nationwide strike. It had a well-deserved reputation for dependability at competitive prices. It no longer enjoys such a reputation. During the 15-day strike most of its customers discovered that they were totally dependent on UPS. They tried desperately to find alternative ways to deliver their packages, but most of them failed. While UPS has many competitors—for example, the U.S. Postal Service, FedEx, Emery Worldwide, ETA Express, DHL Worldwide Express, RPS Inc., and even Greyhound Bus Lines—they were not able to handle anywhere near the 12 million packages that UPS shipped each day. FedEx has been UPS's strongest and most aggressive competitor, actively trying to capture market share at UPS expense, but most of the others seem to have been resigned to UPS dominance. They no longer are.

The strike alerted existing and potential competitors to the profit opportunities in fighting UPS for market share. Apart from the Postal Service, most of the other competitors are union-free and thus are able quickly to respond to profit opportunities. They are unburdened with the yoke of union work rules and union costs. UPS inevitably will try to push its increased union costs forward onto its customers. When it does so, even more profit opportunities will open up for competitors. Since UPS customers have been reminded that it is unwise to rely on a monopoly provider of anything, they will be receptive to the blandishments of competitors.

Moreover, as this is written UPS faces the threat of another strike. The Independent Pilots Association (IPA), the union that represents the pilots who fly UPS planes, refused to cross Teamster picket lines in the August strike, and the Teamsters promised

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they would not cross IPA picket lines in the event it strikes. Even if IPA doesn't strike, the reality of the strike-threat presents another opportunity for UPS competitors to remind UPS customers of how unreliable, and costly, a union-dominated firm can be.

As it becomes clear that UPS and the Teamsters are losing market share in the package delivery business, workers will realize that in this globalized, competitive economy unions are not their friends. At best, unions can generate short-run gains for workers they represent. But, since unionized firms have a competitive disadvantage in the modern economy, those same workers will eventually discover that their employers have fewer and fewer jobs to offer.

Unionism has always depended on hoary myths: that employees and employers are natural enemies, that employees have an inherent bargaining power disadvantage relative to employers, that the only way employees can gain bargaining power is through unions, and that unions are responsible for the improvements in living standards enjoyed by workers over the last one hundred years.

The UPS strike will hasten the day when most workers come to realize that competition and entrepreneurship, not unions, are the source of lasting prosperity for workers and investors alike. When that day comes, the labor movement will, at last, be free from the union movement. □

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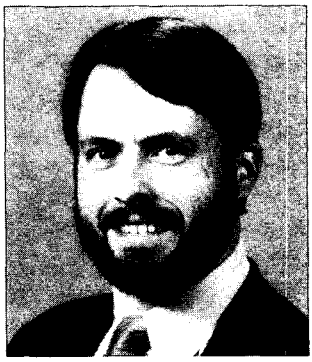

Kill Big Business's Bank

The federal government is full of programs designed to benefit one or another special interest. Like the Export-Import Bank.

The Bank, which provides loans, loan guarantees, and loan insurance for the purchase of American goods, has long been known as Boeing's Bank, given its support for Boeing aircraft sales. But most major U.S. exporters share in the windfall. In fact, ExIm beneficiaries are a Who's Who of the Fortune 500: 80 percent of its subsidies go to medium and large companies, with about half of those benefits collected by just 15 big firms. Like Boeing, which, after its merger with McDonnell Douglas, will have total sales of $48 billion.

And those firms are not shy about showing their support. When the Senate Subcommittee on International Finance of the Committee on Banking, Housing and Urban Affairs held hearings earlier this year on reauthorizing the Bank, eight of nine witnesses endorsed more money for the institution. Half of them represented companies supping at the federal trough. Business organizations like the National Association of Manufacturers, which always extoll their commitment to free enterprise, devote almost as much energy to increasing benefits to business as to battling regulations on business.

Of course, none of the firms admits that self-interest animates its lobbying on behalf of ExIm, which has spent $3.7 billion over the last five years. Bank supporters argue that if the U.S. government doesn't provide cheap credit, American companies will lose out to foreign firms, many of which are subsidized by their home governments. The result would be lost jobs. Thus, ExIm advocates contend, their fight for subsidies for their firms is actually a fight for jobs for America.

A Flawed Argument

There are two major flaws with this argument. The first is the belief that government can provide a free lunch, that the money channeled to the purchasers of U.S. exports is somehow costless. But it isn't. When the Bank makes a loan, or uses guarantees or insurance to direct someone else's loan, less credit is available for use by other firms and individuals. University of Arizona economist Herbert Kaufman estimates that every $1 billion in federal loan guarantees crowds out between $736 million and $1.32 billion in private investment. That means fewer deals and lost jobs. As the General Accounting Office acknowledges, "Government export finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy." The ExIm Bank, then, redistrib-

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utes rather than creates jobs—after exacting an administrative charge.

There's neither moral nor economic reason to enrich those companies lucky enough to benefit from Bank activities at the expense of the rest. Rather, the institution offers lawmakers political benefits: visible subsidies to companies that reciprocate with campaign support and invisible costs to the public, who remains inert.

The second misleading claim made by ExIm enthusiasts is that the Bank undergirds U.S. exports. In fact, the vast bulk of export financing comes from the private sector. Bank deals account for but 2 percent of total exports. And the $16.5 billion in subsidized trade this year, a record, is a mere blip for a $7 trillion economy.

Equally important, it is virtually impossible to assess which deals are dependent on ExIm subsidies. Undoubtedly some are, but every participant in the process—borrower, banker, exporter, bureaucrat—has an incentive to claim that the subsidy clinched every transaction. Yet surveys have long shown credit to be but one of many factors in making a purchase; one review of aircraft sales ranked credit terms eighth of twelve. And that is America's experience in practice. Last year ExIm dropped any financing of work for China's massive Three Gorges Dam project (allegedly for environmental reasons). That hasn't stopped several American firms from providing as much as $100 million worth of equipment and services so far. Thus, in many cases the buyer does what he would have done anyway and simply pockets ExIm's gift.

Underwriting Brutality

The Bank, created in 1934 to help underwrite trade with the Soviet Union, has never found a government too brutal to subsidize. Today China is a leading beneficiary, having borrowed some $5 billion. Nevertheless, ExIm supporters complain about the Bank's withdrawal from the Three Gorges Dam project, as if $5 billion was not enough taxpayer support for the globe's last major communist state.

Nor is China the only thuggish recipient of the forced largesse of American taxpayers. Indonesia is another major Bank client. Over the years ExIm handed out cash to Nicolae Ceausescu's Romania, a regime bizarre even by communist standards, and Saddam Hussein's Iraq. Haiti, Nigeria, the Soviet Union, Sudan, and Yugoslavia have also been beneficiaries of Bank aid.

As for the argument that foreign countries and companies couldn't purchase U.S. products without ExIm subsidies, Ian Vásquez of the Cato Institute points out that "44 percent of the Bank's guarantees in FY 1996 went to Argentina, Brazil, China, Indonesia, Korea, Mexico, Singapore, and Thailand—all emerging economies that have no problem obtaining investment from the private markets." Other nations have more trouble raising funds and paying their debts, of course, but that is a reason to deny them Bank credit.

ExIm has also interfered with markets at home and abroad. For instance, by subsidizing Boeing sales to foreign airlines, the agency has effectively used taxpayer dollars to put American airlines at a competitive disadvantage. The Bank has had the same deleterious effect in foreign nations, routinely underwriting failing state enterprises that should have been privatized rather than subsidized. Mexican economist Roberto Salinas-León points to the Bank's $5.6 billion loan to Pemex, the oil monopoly, a decade ago. More recent has been ExIm support for Gazprom, the Russian gas monopoly.

But let's assume the theoretical case for the Bank. Other nations are subsidizing their exporters and there are some deals that, all other things being equal, should go to American firms. ExIm can restore "balance" and shift the work back to America. It all sounds very nice, but what evidence is there that federal officials have special commercial or political knowledge that justifies turning them into international loan officers? Surely Washington has had enough experience with grant and loan programs to demonstrate that they always operate to fulfill political, not economic, objectives. There

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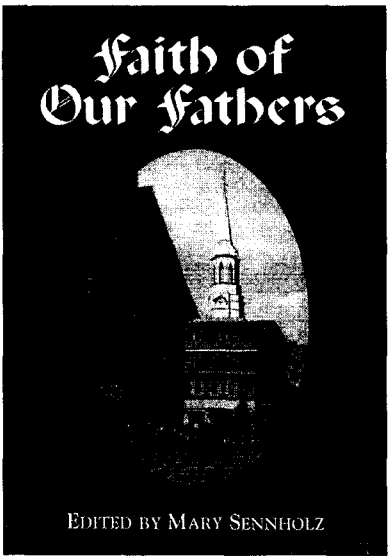
is not the slightest chance that ExIm provides money only when it is "efficient" to do so.

More basic still is the issue of principle. What justifies mulcting Americans to enhance corporate profits? The fact that other governments loot their citizens to boost exports is no argument. The fact that some U.S. firms suffer when other nations do so is no argument. The money being spent and lent by ExIm does not belong to it or to Washington. Rather, it is the taxpayers' funds. Businesses have no moral claim to seize that money for their own benefit.

There is perhaps no better example of corporate welfare than the ExIm Bank. The deal is simple: taxpayers provide the cash, exporters collect the profit. That's neither fair nor efficient. It's time for legislators to acknowledge that 60 years of corporate welfare is enough and to dismantle the Export-Import Bank. □



Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection: "And for the support of this declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

Faith of Our Fathers includes an incisive introduction by Mary Sennholz and powerful essays by Clarence B. Carson, John Wesley Young, Robert A. Peterson, Wesley H. Hillendahl, Gary North, Ridgway K. Foley, Jr., Hal Watkins, James C. Patrick, Hans F. Sennholz, George C. Roche III, F. A. Harper, Jarret B. Wolstein, Leslie Snyder, Bruce D. Porter, Benjamin A. Rogge, Paul L. Adams, Ken Ewert, Ben Barker, John K. Williams, Edmund A. Opitz, Erik von Kuehnelt-Leddihn, and Calvin D. Linton.

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THE FREEMAN
IDEAS ON LIBERTY

What's So Bad About Big Government Anyway?

by George C. Leef

In a recent conversation I used the term "big government," clearly in a pejorative way. Another person spoke up to challenge me, asking, "What's so bad about big government?" He went on to name some benefits that he supposed were possible only with a powerful state. We debated whether it was true, for example, that you couldn't have old-age security without a government system like Social Security, but afterwards I wished that I'd had a more thorough answer to his question prepared.

Since then, I have thought about this question and have boiled the answer down to five points. But before we get to those points, we first need to have a good idea of just what we mean by "big government."

"Big" isn't usually a pejorative. There is nothing wrong with big airplanes, which can carry more people more safely and economically than can small airplanes. There is nothing wrong with a big serve in tennis, although I don't like to see one coming at me. But there is no "right" size for airplanes or "right" speed for tennis serves, so we have no grounds for calling them "too big." There is, however, a "right" size for government. The right size relates not to its budget or number of employees, but rather to its functions.

George Leef is director of FEE's Freeman Society Discussion Clubs *and book review editor of* The Freeman.

Right-Sized Government

The functions performed by a right-sized government are those things that are necessary to protect the life, liberty, and property of the people. The word "necessary" is important here. There are many things that people can do for themselves to protect their lives, liberty, and property, and these, therefore, are no business of government. The government shouldn't buy and install locks on your doors. You can do that.

The right-sized government simply protects the right of people to live their lives as they choose, so long as their actions are peaceful. The title of one of Leonard Read's books neatly encapsulates the boundary of government action: It should not interfere with "Anything That's Peaceful." Once government begins to do that, it becomes an aggressor against its citizens, compelling them to do things they would not choose to do (participating in Social Security, for instance) or preventing them from doing things they would like to do (such as building a home that's not in compliance with every paragraph of the building code), and taking away their money to support things they would not support voluntarily (such as foreign aid). When a government starts to do those things, it has become too big.

Thinking back to my questioner, why shouldn't government force people to do x, prevent them from doing y, or tax them to

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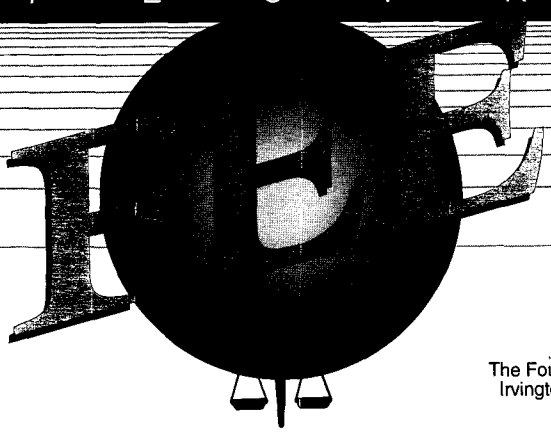

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December 1997

The Benefits of Immigration

In my October "Notes from FEE" I challenged a case, made by some market advocates, for immigration restrictions. I have since received scolding letters and E-mails from numerous people predicting that open borders would bring all manner of calamities. While some writers were less certain than others about the baleful consequences of unregulated immigration, only one correspondent fully shared my support for eliminating all immigration restrictions.

These many letters have prompted me to think longer and harder about immigration. Alas, my opinion remains unchanged: we should welcome all immigrants. Government should not redistribute income to immigrants, but neither should government prevent immigration.

Each immigrant comes to America to make himself better off. Suppose government no longer redistributes income to immigrants. Would immigrants still relocate here? You bet! A handful will come because some Americans are willing to use their own resources to care for them. Most immigrants will come because each has sufficient skill and ambition to profit in the market.

Absent government welfare payments to immigrants, immigrants who do not seek work burden no one other than family or friends who voluntarily assume this burden. I here ignore such non-working immigrants who receive no government handouts. These immigrants do not raise the ire of anti-immigrationists. Opponents of immigration object most vehemently to immigrants who are eager to work.

Such objections are mistaken. Let's see why.

Juan is a hypothetical immigrant. He arrives in America and immediately begins looking for employment. Before finding a job, he must secure food, clothing, and shelter. He may do so from funds brought with him from his native country, or he may depend upon the kindness of family, friends, or charitable organizations here in the United States. In either case, because such transfers are voluntary, no American is harmed.

If Juan resorts to theft, however, the story is different. Some Americans are indeed harmed. But criminal law is the appropriate tool for dealing with such thievery. Restricting immigration on the grounds that a handful of immigrants behave criminally would be like denying drivers licenses to everyone just because a small percentage of people drive recklessly. More focused and less ham-fisted means are available in both cases for weeding out the bad apples from the good.

Juan, however, is no thief. He's a worker. Suppose that Juan has no skills of any value to any American. He can do nothing that any American is willing to pay for. In

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this case, Juan will eventually return home. No American is harmed. (Actually, Juan would probably not come to America in the first place. People so destitute of skills are unlikely to leave home in search of work in a foreign and highly competitive economy.)

But Juan is extremely unlikely to lack *any* skill for which Americans are willing to pay some mutually agreeable wage. Readers who doubt this claim should consult that cornerstone of economics called the theory of comparative advantage—a theory, by the way, that exposes the senselessness of identifying people economically as being "above average" or "below average." The theory of comparative advantage makes clear that everyone is above average at some tasks and below average at many others.

When Juan finds employment, not only is Juan made better off, but so, too, is his employer. Consumers are also made better off, for the higher output or lower cost that Juan's availability makes possible for his employer is shared with consumers through reduced prices or improved product quality. Nothing to complain of so far.

Some people, however, *are* harmed by Juan's availability—namely, American workers who compete with Juan. If Juan's most marketable skill is nearly identical to the most marketable skill possessed by Sam the American, Juan is a potential rival for Sam's job. Because of Juan, Sam's income may fall.

Protecting Sam from income loss, though, is inappropriate. To prevent Juan from entering America is to do nothing more virtuous than to protect Sam from competition. *But it is also to prevent George and Bill and other Americans from freely dealing with Juan, who is someone they would otherwise choose to deal with!* To restrict immigration is to deny to Americans their freedom of association. Sam, then, becomes a monopolist under immigration restrictions. If Sam suffers income loss when these restrictions are lifted, he is no more worthy of our solicitude than is any other monopolist whose monopoly privilege unravels.

Suppose that government grants me the exclusive privilege to write newspaper op-eds. No longer can publishers carry the likes of Walter Williams, George Will, Maureen Dowd, or Russell Baker. Protected from such competitors, my income skyrockets. Now imagine that government withdraws this privilege. Publishers—and readers!—are again free to patronize op-ed writers other than me. My income plummets.

Should you feel sorry for me? Of course not. Would you conclude from the fact that this heightened competition reduces *my* income that the wealth of the nation falls? Of course not. Likewise, productively employed immigrants invariably increase the nation's wealth by intensifying competition and expanding the division of labor. Immigration restrictions, in contrast, reduce economic growth. Prosperity cannot be bred by monopoly protections.

Immigration opponents also fear that open immigration means overcrowding. This worry is overblown. First, the United States is sparsely populated. Second, owners of private property have incentives to keep their properties from being overcrowded. The proper solution to overcrowding is privatizing those property holdings not yet privatized, not forcibly stopping productive people from coming to our country.

Third, overcrowding is an elusive concept. Among the people who wrote to complain that immigration spawns overcrowding was a resident of New York City. But this person clearly doesn't mind crowds. If he did, he'd move to Oklahoma or Mississippi.

Manhattan is one of the most densely populated spots on earth. Yet it is also one of the wealthiest. New Yorkers often complain of crowds, but no one is compelled to live in that city. The reason people live there is because economic opportunity in New York is vast. Living in close contact with lots of people is a price that many of us voluntarily pay for the opportunity to take advantage of the wealth-producing capacities of an extensive division of labor.

New York and Los Angeles are crowded but wealthy. Oklahoma and Mississippi are sparsely populated but much poorer. This fact alone is ample evidence of the great economic benefits of immigration.

Donald J. Boudreaux
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support z, as long as these objectives are "in the public interest"? That mind-numbing phrase has been the cover for untold human suffering. The truth is that there is no such thing as "the public interest." Only individual human beings have interests. When people talk about "the public interest," what they really mean is that some members of the public want something, and they want it at the expense of others. If, for instance, you hear a politician say that his national health insurance program would be "in the public interest," he means that he and the backers of his plan want it, perhaps believe it is good for everyone, and don't care that many other people disagree.

People want to and have a right to attempt to maximize happiness in their lives. Every time the government forces people to do things they would prefer not to do, prevents them from doing things they would like to do, or taxes them for things they don't want, it reduces their ability to maximize their happiness. That is fundamentally wrong.

Big Government vs. Liberty

This leads me to the first of my five reasons why big government is bad. Big government is the enemy of liberty. Government actions that go beyond its defensive, rights-preserving functions necessarily entail some form of coercion that diminishes the freedom of at least some people to do what they would like to do. The bigger the government gets, the more it reduces liberty.

Examples abound. Consider the monopoly the government has conferred on itself in the delivery of first-class mail. Anyone who would like to peacefully contract with others to deliver certain kinds of written communications violates the law and faces prosecution and penalties for doing so. His liberty has been attacked so that the government's postal workers won't have to face competition. The government also has the arrogance to prescribe rules for the use of mailboxes. Even though my mailbox is on my property and I purchased it, federal regulations say that no one, but postal employees delivering mail, may put anything in it. I might prefer to allow others to put advertising in my mailbox rather than other places where they're apt to blow away or get soaked, but big government says no.

Or think about government licensing requirements. In many cities, no one is allowed to go into the business of transporting people without a license, and licenses are unobtainable. Those caught violating the law, transporting people who desire the service and are willing to pay for it, are subject to prosecution and penalties. Their liberty to engage in a peaceful, beneficial transaction is attacked.

Big Government vs. Prosperity

The listing of government attacks on liberty could take up an entire year's worth of *The Freeman*, so let's go on. Big government is also the enemy of prosperity. This is so because big government invariably wastes resources.

Individuals strive constantly to make the best use of their resources—their time, money, and physical resources, from forests to carpenter's tools, coal mines to computers. They carefully examine their options and decide how to allocate their resources to obtain the maximum benefit from them. Sometimes people make bad decisions, but they will change them as soon as it becomes evident that they brought undesirable results.

Self-interest produces the decisions that maximize our wealth and happiness. No one, not even the most ardent statist, likes having his freedom to choose how to spend his time and money usurped by others. Most people realize that turning decision-making authority over to others is apt to leave them worse off. What is true at the personal level is also true at the macroeconomic level, since the entire economy is merely the sum of untold individual decisions. The freer people are to make their own choices, the more prosperous the economy will be.

Big government, however, interferes with those decisions by diverting resources from

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the realm of individual decision-making and putting them in the realm of political decision-making. Political decision-making means that the use of resources will be determined by people who don't own them and therefore do not stand to gain from being right or to lose from being wrong. (Being right means using resources in a way that best satisfies consumers.) Comparing private and political decision-making is like comparing how you drive your own car to how joy-riding teenagers would drive it.

Examples of wasteful government use of resources abound. Here is one of my favorites. In my hometown of Milwaukee there is a large federal office building, built in the early 1980s, that soaked up a lot of resources for which taxpayers had to foot the bill. Was there any need for the building? The General Accounting Office had issued a report showing no shortage of office space in downtown Milwaukee for the many federal agencies (themselves busy wasting resources). But politicians and the construction unions (guaranteed a lot of high-priced work under the Davis-Bacon Act) wanted the project, and that settled it. Resources went into an unnecessary office building rather than into whatever more useful projects they would have gone into had the government not interfered. A few people gained, but overall prosperity was lowered.

Big Government vs. Progress

Human beings have a natural inclination to search for better ways to do things. When we succeed, we call it progress. The discovery can be as simple as a housewife figuring out a faster way of getting her shopping done or as headline-grabbing as a breakthrough in medical technology. The quest for progress is universal.

When government is doing its proper job of protecting the rights of individuals, it indirectly assists progress by helping to protect innovators against attacks by those who don't want them to try new and different things. In arresting and jailing the Luddites, the early nineteenth-century workers who violently opposed progress in textile production (power looms and factories threatened their old-fashioned ways of weaving cloth), the British government aided progress. When government protects liberty and property, progress is maximized.

Big government, however, often fails to protect liberty and property. Frequently special-interest groups that feel threatened by some innovation will lobby the government to do what they cannot legally do on their own, namely, interfere with the freedom of the innovators. As a political favor to those groups, big government often locks in the status quo with laws and regulations. Progress is thereby stifled.

Here again, there are many examples that could be cited. Consider building codes. Building codes specify, sometimes in minute detail, how a building must be constructed. The owner and his architect can usually decide cosmetic issues (although if the building has been designated as "historic," they may not have freedom even here), but the structure, plumbing, wiring, and so forth must be "to code" even if the owner and experts whom he might consult agree that money could be saved or operations improved by doing something different. Builders have pointed out for years that building codes significantly raise the cost of construction while adding nothing to safety. Why do we have them?

Locking in the status quo on housing construction makes two politically potent groups happy: construction workers and code officials. Suggestions that building codes be liberalized or repealed send shivers down their spines. Building codes protect some of the jobs of the former and guarantee the jobs of the latter. To argue that codes drive up costs and get in the way of progress will elicit salvos of red-hot rhetoric about the "need to protect the public." Code defenders conjure up horror stories about what might happen if people were free to construct buildings any way they pleased. But owners (and their insurers) have an incentive to construct safe, sound, durable buildings; the codes merely

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get in the way of their search for the best ways of constructing them.

Try this little thought experiment. Imagine that the British government had assisted the Luddites instead of thwarting them. Furthermore, suppose that every interest group that stood to lose by some innovation succeeded in obtaining government protection against it: candlemakers, carriage builders, ice cutters, and so on. What if, in other words, the government had locked in place the technology and social arrangements of 1800? How much shorter and poorer would people's lives be? The answer is obvious. They would be much worse off. Big government, by making it easier and easier for our modern Luddites to obstruct progress through the proliferation of regulations and regulatory agencies, is doing that to us now.

Big Government vs. Harmony

When government is right-sized, it outlaws and punishes aggressive acts against people and their belongings. That raises the cost of aggression, thereby helping to deter it and channel people's desire to get more for themselves into peaceful means. Cooperation and trade flourish in this environment. People come to realize, at least implicitly, that there is a natural harmony among their interests. (For an intriguing discussion of human cooperation, see Matt Ridley's *The Origins of Virtue* [Viking, 1997], and the book review in this issue.) Antagonisms and hatreds may not disappear, but they are minimized.

Big government, however, holds and inevitably uses the power to make some people better off at the expense of others. This creates hostility, bitterness, and sometimes violence where there would otherwise be none.

Big government's labor laws have helped to perpetuate a false and counterproductive "us versus them" attitude among workers that gets in the way of harmonious labor relations. Many people have been injured and even murdered in strike-related violence that foolish labor laws indirectly encourage. "Affirmative action" laws create antagonism between members of the preferred and nonpreferred groups. In the United States hostility over affirmative action is largely a matter of simmering bitterness, but in other countries, as Thomas Sowell documented in *Migrations and Cultures* (Basic Books, 1996), it has led to much bloodshed. Social Security creates antagonism between older and younger people. "Public education" creates hostility between those who benefit from that enormous subsidy and those who are forced to pay for it. And so on.

Trying to get big government to interfere with the rights of others wastes resources, contributing to its attack on prosperity; but the greater loss, I submit, is in social harmony. An important but immeasurable component of the quality of life is a peaceful and happy frame of mind. By creating enemies where there would otherwise be none, big government changes many a peaceful and happy frame of mind to one that is angry and resentful. Some people want to ban products that might lead to high blood pressure, heart attacks, and other health problems. I think we'd accomplish more good in that respect if we banned big government as a risk to health and happiness.

Big Government vs. Morality

Right-sized governments do not try to make their people moral. Instead, they preserve the freedom of individuals to act as they think best to promote morality. Churches, civic groups, writers, and orators are free to try to persuade people to live what they regard as a moral life. Government should protect the right of all to enter the marketplace of ideas about morality but should draw the line at actions that force others to live by those ideas. Arguing that alcoholic beverages are evil and should not be consumed is fine; smashing bars and burning down distilleries is not.

One of the most important foundations of morality, and one that is reinforced by right-sized government, is the live-and-let-

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live philosophy. So long as a person violates no one's rights—deprives no one of anything to which he is entitled—this philosophy says we may not coerce him. Live-and-let-live adherents may not approve of things that others do, but they do not believe they have any right to use force to make them behave differently. Might never makes right, and the willingness to renounce it is a hallmark of morality.

But big government undermines morality. It does so by seducing people into the belief that might does make right—provided that it is exercised democratically.

When big government stands ready to enact laws and regulations that take from some and give to others, and when politicians campaign by promising to do exactly that, it leads people to believe that coercion is morally proper. Do you want food, housing, education, or medical care provided to you at the expense of others? The leaders of big government say, "Don't steal from others to get those things, but come to us and maybe we will do it for you." Do you want to cripple your competitors? Politicians say, "Don't burn down their businesses, but if you play the game right, I might cripple them with regulations." Do you want to see more handicapped people with jobs? Legislators say, "You may not punish employers who prefer not to hire someone with a handicap, but come to me and perhaps I will do it for you."

Prior to the advent of big government, when people wanted to accomplish something, whether personal enrichment or the realization of some lofty social dream, they knew they had to go about it through peaceful means. Big government encourages them to use politics to accomplish their objectives, thus legitimizing coercion. And with the legitimization of this variety of coercion, is it any wonder that many people conclude that coercion is permissible even without playing the political game first?

The Bill of Indictment

What is so bad about big government? My indictment of big government is that it is bad because it attacks liberty, prosperity, progress, harmony, and morality. Thanks to big government, we have significantly less of all of those good things than we would if we had been able to keep government right-sized.

Big government is cancerous. Like a cancer, it hurts the body and tends to spread, doing more and more harm as it grows. It is time for some radical surgery. □

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Or Else . . .

by Russell Madden

Extortion has always been a favorite activity of governmental agencies. Ordinarily, threatening someone with harm unless he accedes to another's demands is rightfully a crime. Whether the perpetrator is a neighbor seeking to use your lawn mower or an organized-crime thug reminding you to pay your monthly "protection fee," such behavior is condemned and prosecuted rigorously. No normal person enjoys having his desires thwarted or his values seized against his wishes.

Webster's dictionary says that to extort is "a) to wrest or wring (money, information, etc.) from a person by violence, intimidation, or abuse of authority; obtain by force, torture, threat, or the like, b) to take illegally under color of office."

What can a citizen do in the second instance, when the extortionist knocking at his door is someone whose job it is to *protect* him from that very crime? Unfortunately, in today's political reality, *legal* extortion is the guiding principle that authorities at all levels of government practice with enthusiasm. Few citizens realize precisely what is occurring when the state shakes them down. Typically, a property owner or business owner is required to comply with government demands in return for being permitted to engage in some activity. Compliance, in other words, is the payment for protection from state prohibition. This type of theft does them far more damage, results in a much greater loss of wealth, and diminishes their freedom to a greater extent than all the criminals currently preying on honest citizens.

At a local level, such extortion manifests itself in myriad rules, regulations, taxes, permits, and demands for compliance. A person's property becomes not a resource to be used by him in furthering his personal goals and values, but an extension of "public" property, to be controlled, limited, or expropriated according to the whims and preferences of whoever directs the agents of the state.

A Man's Home Is No Longer His Castle

Building codes force a homeowner to construct or remodel his house—*his* property—in alignment with the judgment of a government-certified "expert." Regardless of whether an individual prefers to add certain safety devices or use particular materials, the building inspector dictates what is acceptable or not. Where a property owner can site his home; whether he can have an office or run a business on his property; whether he can rent out a room to a boarder; where he may plant a tree or cut one down; how many cars (of a certain age) he may park in his own drive; whether he may build at all—the number of ways that government may require compliance from citizens is nearly limitless. And if a homeowner has the misfortune of purchasing a property designated as "historical," esthet-

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ics alone (that is, the aesthetic choices of strangers who did nothing to help the individual purchase his property) can force him to use a certain color paint, erect only certain styles of fencing, or alter the looks of the house according to narrowly delimited standards. Whether one can afford such changes or even likes the results of these demands is irrelevant. The homeowner complies—or else. . . .

Developers and entrepreneurs are likewise politely assaulted by those government officials who demand certain perks or benefits. For every new house built, a municipality may demand a small fee to be delivered into the city or county coffers. The officials may require that a certain portion of land be set aside for parks, trails, and playgrounds or placed into a land bank to "preserve the natural environment." If the builder resists or attempts to negotiate a more acceptable situation, the government agency may simply state, "Do it our way or we'll just take the property we want through eminent domain." (The government prefers the first course; a taking under eminent domain requires "just compensation," according to the U.S. Constitution.)

Other agencies may interfere with an entrepreneur in order to have him locate his business in an area with a particular racial make-up. For example, the Nuclear Regulatory Commission licensing board recently told Louisiana Energy Services (LES) that its license for a new uranium enrichment plant would require "further study." Why? The board feared the selection of the site may have been influenced by racial considerations and might result in "environmental injustice," that is, subjecting black residents to more pollution than white residents, even though the regulators had earlier declared the plant safe. Had LES chosen a predominantly white location, perhaps it would not have been threatened with the termination of its $855 million plans. Refusal to knuckle under to the intimidation may result in denial of permission to build. In other instances, business owners who violate "environmental" laws such as wetlands regulations face financial ruin and even imprisonment. The message is clear: "Do it our way—or else. . . ."

Officially Reviled Businesses

If a businessman creates products that are under official censure or that suffer from public distaste, the extortion rises to new levels. Tobacco companies are threatened with ruinous Medicaid litigation and potential prohibition of their product though they have violated no laws. Various draconian demands are made on them. The extortion attempt is eagerly joined by nearly every state and supported by the federal government. Then the extortion is compounded by the demand for billions of dollars in return for immunity from litigation.

Beer and liquor manufacturers are heavily taxed and regulated. Where and what hours they can sell their products, what information they can place on their labels, and how much alcohol they can put in their products are all determined by those who have no financial stake in the success or failure of the business. Perhaps not too far down the line those who produce "junk" food, dairy or meat products, or even "gas-guzzling" sports vehicles will be required to pay protection money as well. They'll quickly learn that if they refuse "protection," there will be no product to sell at all.

Cities, counties, states, and the federal government save their boldest attempts at extortion for the realm of income taxation. Adding insult to injury, they have the audacity to label their actions with an Orwellian usage of the term *voluntary*. Because the men with the guns rarely come directly to your door, the politicians and their minions pretend that no violence, intimidation, or threats are involved in getting you to surrender your property. Every year more than a trillion of dollars are quietly extorted from those who have earned that money. Each of those dollars represents time stolen from the owners, a partial enslavement, another retreat from the freedom each citizen has as his right. Of course, in addition to the income tax, there are sales taxes, property taxes (used primarily to support

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schools whether you have children or not), estate taxes, luxury taxes, employment taxes (Social Security, Medicare, unemployment), and excise taxes on gasoline, cigarettes, and alcohol. Indeed, almost no human activity is exempt from such extortion. An individual may voluntarily "choose" not to pay certain taxes, but the "or else" in these cases does not pay even lip service to due process. Without a court order or a trial, the Internal Revenue Service can seize a person's bank account, padlock his business, garnishee his wages, or sell his property to satisfy a tax debt. The implicit threat: pay the IRS whatever it claims you owe it—or else. . . .

These examples of officially sanctioned extortion could be extended indefinitely. Every behavior a citizen engages in only under the threat of punishment, every peaceful action he avoids due to official intimidation, every bit of property or time surrendered at the literal or figurative point of the government's guns represents an abuse of his freedom and rights, a denial of his moral autonomy, an initiation of violence that proclaims that neither his life nor his property are truly his. Every citizen who seeks to cash in on that booty, every person who demands that his neighbor conform to his wishes, every individual who clamors for what he did not earn contributes to an atmosphere that permits, condones, and even encourages expanding legal extortion.

An honest person does not seek to enrich himself at the expense of his fellows. A moral person does not claim that his desires or his needs establish a claim on the time, wealth, or property of a neighbor. A person of integrity does not abhor extortion on an individual level while encouraging it on a social plane.

As a culture and most especially as individuals, we need to recognize extortion, whatever its guise, and categorically reject it. The consequences of failing to root out and eliminate such attitudes are too grave to ignore. We either increase freedom and respect for property rights—or else. . . . □

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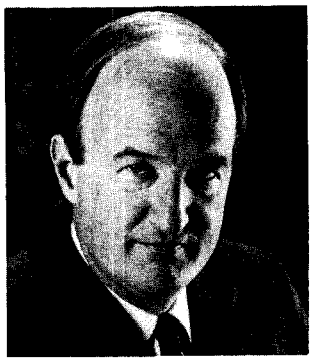

Best Textbooks for a Free-Market University

"I don't care who writes a nation's laws . . . if I can write its economics textbooks."
—*Paul A. Samuelson*

When I majored in economics in the late 1960s and early 1970s, there were precious few textbooks with a strong free-market bent. My introductory course required Paul A. Samuelson's *Economics*, a strictly Keynesian work favoring heavy state intervention. My class in the history of economic thought relied on *The Worldly Philosophers*, by Robert Heilbroner, a socialist who said that Karl Marx was a good family man. My economic history book was *History of the American Economy*, by Ross M. Robertson, who wrote that high federal deficit spending got us out of the Great Depression. And this was at Brigham Young University, a conservative institution.

Fortunately, free-market economists have gradually filled a gap by teaching sound principles at every level of economics. There's still much more to do, but the direction is clear—more textbook writers are producing books that teach market principles.

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Here are my choices for the best textbooks in each category:

Introductory Texts: Significant Progress

There are quite a few introductory texts to choose from. Most of my colleagues select *The Economic Way of Thinking*, by Paul Heyne (University of Washington), now in its eighth edition (Prentice-Hall, 1997). It focuses primarily on the micro foundations of the economy and avoids defective macro concepts such as aggregate supply (AS) and aggregate demand (AD). *Economics: Private and Public Choice*, by James D. Gwartney (Florida State) and Richard L. Stroup (Montana State), now in its eighth edition (Dryden Press, 1997), is another favorite. It consistently applies market principles to a host of problems, including the environment, taxes, and government spending. It is the only textbook I know that spends several pages on Social Security privatization.

The only drawback is that it begins its macro section with AS-AD, a fundamentally Keynesian concept (the idea that the economy can be stuck indefinitely at equilibrium at less than full employment). Gwartney and Stroup should take a cue from Greg Mankiw's popular new textbook, *Economics* (Dryden Press, 1997), which begins its macro section with the classical model (which he terms "the real economy in the long run") and relegates the short-term

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AS-AD model to the back of the book. AS-AD is introduced in chapter 8 of Gwartney and Stroup but chapter 31 in Mankiw!

Another free-market textbook that puts classical economics ahead of the Keynesian model is *Principles of Economics* (Addison-Wesley, 1997) by Roy J. Ruffin and Paul R. Gregory, both professors at the University of Houston. They introduce AS-AD in chapter 27. Economic growth (the long-run classical model) is emphasized over the ups and downs of the business cycle (short-run Keynesian model).

Ruffin and Gregory have many other advantages: They are the only major textbook to cite favorably the Austrian economists Ludwig von Mises, Friedrich Hayek, and Joseph Schumpeter throughout the textbook, including the first chapter. Most textbooks quote liberally from John Maynard Keynes, Milton Friedman, and Karl Marx, but Ruffin and Gregory break new ground here. The authors focus on four major historical events ("Defining Moments in Economics") and their impact on economic thinking: the industrial revolution, the rise and fall of socialism, the Great Depression, and globalization. They also devote major sections on privatization, public choice, the gold standard, and economic success stories in Europe and Asia.

Overall, the works by Ruffin and Gregory, and Gwartney and Stroup, are quickly becoming known as the most innovative textbooks on the market today.

Breakthrough in American Economic History

Now let's turn to economic history. Gene Smiley (Marquette) has written a first-rate textbook for American economic history classes: *The American Economy in the Twentieth Century* (South-Western Publishing, 1993). It is the only textbook I know that considers all the major conflicting theories for explaining the major events of the twentieth century. It even includes an Austrian interpretation of the Great Depression and the World War II economy. I just wished Smiley covered events prior to the twentieth century; his book is that good.

History of Economic Thought

Many economics teachers have wisely replaced Heilbroner's *Worldly Philosophers* with *New Ideas from Dead Economists*, by Todd G. Buchholz (Plum, 1990). Among other things, Buchholz is much more critical of Marx and central planning. Unfortunately, Buchholz's book says almost nothing of the Austrian school. One book that does is *A History of Economic Theory and Method*, by Robert B. Ekelund, Jr., and Robert F. Hebert (McGraw-Hill, 1990). Murray N. Rothbard originally intended to write a one-volume history of economics, but his work gradually developed into a series of tomes, only two of which were completed before his untimely death: *Economic Thought Before Adam Smith* and *Classical Economics* (Edward Elgar, 1995). Both books are more appropriate for advanced courses in economic theory and philosophy.

Other free-market books may be helpful in various courses. For money and banking classes, Murray Rothbard's *The Mystery of Banking* (E. P. Dutton, 1983) is useful. Dominick T. Armentano's *Antitrust and Monopoly*, second edition (Holmes & Meier, 1990) is an ideal supplement in classes on industrial organization. And, of course, there is a wide variety of books on free-market economics to supplement the textbooks—works by Ludwig von Mises, Friedrich Hayek, Israel Kirzner, Henry Hazlitt, George Reisman, Hans Sennholz, and a host of others.

In short, free-market economics is back in the college classroom. □

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BOOKS

Hungry Ghosts: Mao's Secret Famine
by Jasper Becker
The Free Press • 1996 • 352 pages • $24.50

Reviewed by Steven W. Mosher

Some of the darkest chapters in recent human history have been written in the People's Republic of China. From the radical experiment in utopian engineering known as the Great Leap Forward, to the state-sponsored terror of the Cultural Revolution, to the Draconian one-child policy of today, China's communist rulers have visited disaster after disaster upon the Chinese people. While much is known about these and other political campaigns gone awry, there is one man-made disaster of monumental proportions that has been kept carefully under wraps.

From 1958 to 1962 Chinese people starved to death by the tens of millions. But the "three difficult years," as the Beijing regime still daintily refers to this atrocity, saw not merely death from famine on a massive scale. It was also a period of state terror, during which Party officials ransacked villages, torturing and murdering peasants for refusing to hand over secret stores of grain that did not exist.

Hungry Ghosts is the first full account of what is arguably the worst famine in all of human history. Jasper Becker, a BBC journalist who lived for several years in China, spent years in painstaking detective work to piece together both the cause of this tragedy, and its final cost in human lives. Although he strays from the truth in ascribing the famine, in part, to a lack of population control, his book is an otherwise solid indictment of central planning and Maoist hubris.

As soon as the People's Republic of China was established in October 1949, Mao Zedong wanted to move as quickly as possible to create agricultural collectives. This culminated in 1958 with the formation of the "People's Communes," huge, cumbersome agricultural cooperatives with tens of thousands of members.

To make matters worse, Mao insisted that the communes adopt agricultural techniques from the Soviet Union, which was reporting triple-digit increases in food production. Such techniques as deep plowing, close planting, and increased irrigation, based as they were on Marxist-Leninist pseudoscience, turned out to be disasters in practice. Deep plowing, for instance, effectively destroyed the fertility of the soil for years to come, as peasants trenched the ground to depths of four or five feet. Seedlings planted in extremely high densities died, while the irrigation projects—mostly small reservoirs—were so ill-conceived and executed that they were later dismissed by the Ministry of Agriculture as "completely worthless."

Mao, in his great vanity, was oblivious to all this. Instead, he believed the reports of sycophantic officials that food production had skyrocketed under the commune system and his other innovations. When Mao visited the model commune of Xushui in 1958, he saw piles of vegetables, turnips, cabbages, and carrots strategically placed along the main road. As Becker writes, "Officials told him that the peasants had dumped the vegetables because they had grown so much food they did not know what to do with it."

Buoyed by a flood of such false reports, the Beijing regime encouraged peasants to eat grain. It doubled its grain exports, even giving away grain gratis to its friends in North Korea, North Vietnam, and Albania. Although no one knew it at the time, every ship that left the docks condemned additional thousands to die.

By the winter of 1958–59 the commune granaries were bare, but Mao refused to believe that there was a food shortage. Instead, egged on by officials still boasting of record crops, he became convinced that the peasants were hiding their grain. In places like Henan, where the provincial leadership was fanatically devoted to Mao and his illusions, this led to mass murders

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that the Party would later describe as "a holocaust."

As Becker writes, "The great terror began in the autumn of 1959 . . . when the prefectural Party committee declared war on the peasants . . . launch[ing] a brutal anti-hiding campaign. . . . 'It is not that there is no food [one local official said]. There is plenty of grain, but 90 percent of the people have ideological problems.'" Virtually all of the grain harvested was collected by officials who used arrest and torture to achieve their ends.

"By the start of winter," Becker continues, "it was clear that the peasants had nothing to eat but tree bark, wild grass seeds and wild vegetables. [Local officials] declared that this was merely 'a ruse of rich peasants' and ordered the search for grain to be redoubled. Party cadres were also incited to smash the cooking pots in every household to prevent them from being used at home to cook grass soup."

Becker concludes that Mao's famine was "a deliberate act of inhumanity" and asserts that, as a mass murderer, Mao should be ranked higher than Hitler and Stalin. After all, Hitler's concentration camps were responsible for 12 million deaths, while Stalin's gulags devoured some 20 million souls. Stalin's own famine, which raged in the Ukraine during the early 1930s, cost only 11 million lives. "Mao," Becker writes, "exceeded even these ghastly totals." *Far, far* exceeded.

How could a disaster of this magnitude be hidden from the world for so many decades? The Chinese Communist Party's natural penchant for secrecy offers us part of the answer. During the fifties and sixties, China was off-limits to Western, and especially American, writers and journalists. Visas were forthcoming only for true "friends of China," who could be trusted to check their curiosity at customs, and write only what they were told during their stay.

Of that time, China historian Edward Friedman has written that "foreigners were fed a diet of lies to spread outside the country, to the effect that there was no famine in China." Perhaps the leading China apologist of all time, Edgar Snow, who spent five months in China at the height of the famine, flatly denied its existence: "One of the few things I can say with certainty is that mass starvation such as China knew almost annually under former regimes no longer occurs. . . . I diligently searched, without success, for starving people or beggars to photograph." Although he conceded that some people were suffering from "severe malnutrition," he thought that it had probably not led to any significant number of deaths.

The British journalist Felix Greene returned from a visit to China to announce, in tones reminiscent of Snow, that "the indisputable fact is that the famines that in one area or another constantly ravaged the farmlands of China, and the fear of starvation, which for so long had haunted the lives of the Chinese peasants, are today things of the past."

The "firsthand" verdict of Snow and others on the famine was widely accepted, even by many American China-watchers, who for years afterwards denied or at least downplayed one of the greatest human tragedies of our century. Snow's views received a respectful hearing at Harvard and elsewhere after his return to the United States. They also found their way into textbooks, such as John K. Fairbank's introductory history of modern China, which devotes to the "three difficult years" precisely one sentence: "Malnutrition was widespread and some starvation occurred."

The only point on which Becker and I part company concerns population control. Becker writes that "The Chinese are still suffering from the greatest and most far-reaching consequences of Mao's illusions . . . that modern science was the key to a limitless expansion of food supplies. . . . In the early 1960s, as China was starving, Mao wrote . . . 'China's big population is a very good thing.'" Becker is saying, in effect, that Mao erred in trusting science, and erred again in not imposing the one-child policy—or its equivalent—on the Chinese people as soon as he took power.

But did either of these beliefs lead to

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errors on Mao's part? I think not. The history of the last half-century has been one of astonishing increases in food production. The scientific revolution in food production, the so-called "green revolution," has doubled crop yields worldwide. At the recent Rome Food Summit, Stein Bie, a researcher for the Food and Agriculture Organization (FAO), commented that "[food] disasters are not taking place," and that the earth can easily support eight to ten billion people—double its current population—in the next 25 years.

As far as the relationship between population and hunger is concerned, FAO chief analyst Jacques Verceuil commented at the same conference that, of the ten countries worst off in terms of food supply, nine have suffered serious warfare. Population size and density have nothing to do with it.

Now Becker, of course, knows all this. After all, he has written an entire book proving that China's famine was the result of political decisions and masked by censorship. And I am sure that he would be the first to admit that he has offered absolutely no evidence that the famine could have been averted, or even mitigated, had Mao earlier imposed a radical population control program on the Chinese people.

So what are we to make of Becker's mental tic when it comes to population control? It may mean nothing more than that he is a creature of this misanthropic age, which in general regards families and children with a kind of light disdain. Still, the point that communist politics and not the Chinese people are the cause of China's problems is important enough to insist upon, not least because the Chinese Communist Party has it the other way around.

There will be no PRC edition of Becker's book, for it would never get past Beijing's ever-vigilant censors. But for those who want the truth about the most disastrous famine in world history, *Hungry Ghosts* is your book. □

Steven Mosher is the president of the Population Research Institute, and is the author of A Mother's Ordeal: One Woman's Fight Against China's One-Child Policy.

Why the Left Is Not Right—The Religious Left: Who They Are and What They Believe

by Ronald Nash

Zondervan • 1996 • 222 pages • $10.99 paperback

Reviewed by Doug Bandow

When it comes to religion and politics, most media attention is focused on the right. And it usually isn't positive coverage. Religious conservatives are presented as threatening America's constitutional balance, women's right to choose, gays' civil liberties, and much more.

Yet religious activism runs both ways. As Ronald Nash, a professor at the Reformed Theological Seminary in Orlando, Florida, notes in *Why the Left Is Not Right*, there is an active and diverse religious left in the United States. To be sure, these people, who once "proudly proclaimed their liberal or radical connections," now "describe themselves as moderates and centrists," notes Nash. But their policy positions remain unashamedly left-wing.

Nash divides the religious left into three parts: liberal mainline Protestants, liberal Catholics, and left-wing evangelicals. There's no doubt where Nash stands. He argues that these groups have been used (willingly or unwillingly) by the Democrats for electoral purposes and have helped "demonize politically conservative Christians." A prolific author and entertaining speaker, Nash obviously views himself as among the demonized right.

In his view, the central argument is not whether people of faith should be concerned about peace and justice, but what those terms mean. The evangelical left has appeared to have simply assumed the standard liberal understanding of the words and then discredited anyone (including their politically conservative brethren) who understood the terms differently and who pursued the objectives of peace and justice in a different way.

Perhaps the greatest value of *Why the Left*

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Is Not Right is that it shows how political activism by people of faith is neither new nor restricted to conservatives. Indeed, even as evangelicals were receiving exaggerated public attention for entering the political process, mainline Protestant denominations were promoting Democratic political causes domestically and communist revolutionary movements abroad. It is a story worth remembering when the media and political establishments pour obloquy on traditionally less active evangelicals and fundamentalists as they seek to protect themselves and their values from government intrusion.

Much the same politics has been on display within the Roman Catholic Church. Catholics were once "thoughtful enemies of secularism, humanism, and the liberal welfare state," writes Nash. Many still are, but as Nash puts it, "large cracks have appeared in the political and social thinking of many educated Catholics." The 1985 Pastoral Letter on the economy, for example, was as political as anything emanating from the Christian Coalition. Even more radical have been specific segments of the church, such as the Maryknoll Order.

However, Nash devotes most of his attention to the lesser-known left-wing evangelicalism. He argues that the New Left and "the adversary culture" of the 1960s spawned political liberalism among Protestants who purport to hold a more conservative, orthodox theological view. Nash focuses on three leading leftish evangelicals: Jim Wallis, editor of *Sojourners* magazine; Ron Sider, founder of Evangelicals for Social Action and author of *Rich Christians in a World of Hunger*; and Tony Campolo, sociology professor, well-published author, and presidential confidante.

The scrutiny is warranted, though Nash seems more skeptical of the trio's good intentions than is justified. Wallis, for instance, lives his beliefs. Two decades ago Wallis moved his magazine to a poor section of Washington, D.C., and formed a community of the same name. At the same time, however, he has, as Nash points out, remained imbued with the leftist Zeitgeist of the 1960s. The boat people fleeing communist Vietnam, Wallis wrote, were leaving "to support their consumer habit in other lands." Their departure should not be taken to "discredit" Vietnam. Wallis's views toward Cuba and Nicaragua were similarly skewed.

Wallis's economic opinions also were long solidly collectivist. The collapse of socialism abroad seems to have chastened him—he now calls himself centrist and asserts that he is independent of Democrats and Republicans alike—but he remains wedded to interventionist policies. Conservatives, Wallis charges, retain an "attachment to institutions of wealth and power, preference for the status quo, and the lack of a strong ethic of social responsibility." Unfortunately, while Wallis now criticizes abuses by government, he underestimates how the activist state promotes concentrations of wealth and power, supports the status quo, and undermines social responsibility.

Similar is Nash's case against Ron Sider. Sider is a gentle spirit who has borne substantial liberal criticism for his opposition to abortion and gay rights. Unfortunately, however, on economic policy he has always placed intentions before results. Thus, as Nash documents, Sider has long advocated the sort of government intervention that has been tried and found wanting throughout this century. While criticism is rife of the Christian Coalition for seemingly attaching itself to the GOP, Nash points out that "Ron Sider, the person who comes closest to being a moderate member of the evangelical Left, has himself spent years trying to elect liberal, typically Democratic, candidates to public office."

Tony Campolo is probably the most public of the three, given his high-profile contacts with President Bill Clinton. Campolo also criticizes government, but seems committed to statist remedies when it comes to solving specific problems. Nash doesn't stop his criticisms here, however; he goes on to question Campolo's evangelical credentials, given the latter's views on such issues as abortion, feminism, and the environment.

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Through his analysis, which concludes with chapters on economics and poverty, Nash shows how even the best-intentioned of religious believers can come up with solutions inimical to the interests of those they wish to serve. But Nash, who has been on the receiving end of endless left-wing barbs, puts an unnecessary edge in his own analysis. Perhaps nothing irritates Nash more than the evangelical left's flirtation with Bill Clinton.

Yet the opinions of Wallis, Sider, and Campolo reflect ignorance rather than malice. I've met and debated all three. All want to help those in need, seem to have been affected by the decline of statism, and were willing to acknowledge contrary arguments. They deserve to be criticized, not demonized.

Why the Left Is Not Right deals seriously with an important subject. Despite the public perception that religious activists gravitate toward the right, many people of faith have embraced collectivist remedies despite the ill effects on those most in need. In short, Nash's basic thesis is correct: the left is not right. □

Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author of Beyond Good Intentions: A Biblical View of Politics *(Crossway).*

The USA Tax: A Progressive Consumption Tax

by Laurence S. Seidman

MIT Press • 1997 • 160 pages • $20.00

Reviewed by Roger W. Garrison

Hot dogs, baseball, apple pie, and the USA Tax: What is the relationship among these pieces of Americana? The fourth-listed one imposes a tax on the other three. USA stands for Unlimited Savings Allowance. Taxes are to be imposed only on consumption, as set out in the 1995 USA Tax bill sponsored by Senators Domenici, Nunn, and Kerry. Professor Laurence Seidman of the University of Delaware has written a book to argue the case for this progressive consumption tax and to defend his relatively pure version of it against the version in the actual legislation. The 1995 bill involves a few needless complexities and inequities, but these legislative quirks do not unduly distract Seidman or his readers from the more fundamental issues.

Although the transition from an income tax to a consumption tax would involve radical change, the proposed tax system would be the same as the existing one in several important respects. The total tax burden would be the same, the distribution of that burden across the different income classes (or consumption classes) would be about the same, and the computation of the tax liability for each individual and for each firm would be complex—though maybe not as complex as it currently is. Most importantly, some of the distinctive features of the proposed system are in serious conflict with the basic principles of liberty. For one example, taxes themselves would be treated as consumption (public rather than private) and thus would be subject to further taxing. For another, all deposits and withdrawals of cash, the key determinants of consumption-tax liabilities, would be reported to the government by financial institutions.

The supposed appeal of the USA Tax lies in its favorable treatment of saving and investment and in its "fairness." The favorable treatment of saving and investment is achieved simply by excluding these activities from the tax base; the "fairness" (so judged on the basis of survey results believed to reflect the majority opinion among Americans) is achieved by the progressivity of the marginal tax rates. In comparison with the USA Tax, our current income tax is found inferior because it taxes both consumed income and (with some exceptions) saved income. A national sales tax and the Hall-Rabushka Flat Tax are found inferior because they do not allow for enough progressivity.

The two main features of the USA Tax (pro-saving and progressivity) are presented separately in Seidman's book. Weighing strongly against this tax scheme,

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however, is the conflict between these features—a conflict that Seidman does not notice (or, at least, does not mention). The steeply progressive tax schedule may well discourage saving and/or encourage borrowing. A simple example can make use of the tax schedule to be applicable for the year 2000 and beyond, together with an assumed interest rate of 10 percent. The marginal tax rates for the four consumption brackets are 0 percent, 8 percent, 19 percent, and 40 percent, the top rate applying to consumption levels of $24,000 and higher. Suppose our taxpayer is in a position to consume $24,000 worth annually. He could, instead, spend only $23,000 this year so as to be able to spend $25,000 (plus some interest) next year. This year's $1,000 reduction in consumption allows our taxpayer to take advantage of the tax-free status of savings. He would pay $190 less in taxes this year (19 percent of $1,000). Next year, after collecting $100 in interest, he can spend $25,100. But the taxes he owes on that last $1,100 worth of consumption is $440 (40 percent of $1,100). For the two-year period, his initial saving has allowed consumption to go up by $100, but his corresponding tax liability goes up by $250! In this example (and in others where consumption levels are close to the bracket breaks) the anti-saving effect of the "fairness" feature swamps the direct effect of the pro-saving feature. This net anti-saving bias is even stronger when incomes (and levels of consumption) are increasing over time—as they generally are. A temporal smoothing of consumption to avoid high marginal rates requires borrowing—*dis*-saving—in the lean years.

If considerations of fairness keep people from saving this year in order to consume next, maybe the more farsighted among us can take advantage of tax-exempt saving by waiting until retirement to consume. But this is the one component of saving that is exempt even under the existing system. Further, retirement years are low-*income* years, not necessarily low-*consumption* years. Many people in their 60s and 70s travel extensively as they never could before. They consume. Many in their 80s and 90s pay dearly for their daily keep in a retirement center. Should these people pay even more dearly on April 15? Our hapless taxpayer may once again be foiled by fairness.

In comparing income and consumption as alternative tax bases, there seems to be no clinching argument that allows for an unambiguous preference. Each is deficient when judged by the standard set by the other. If we take consumption as the appropriate base, we see that an income tax is applied to some of it twice. If we take income as the appropriate base, we see that a consumption tax lets some of it go untaxed. Ultimately, Seidman's case for the pro-saving feature of the USA Tax is itself based on considerations of fairness: "[I]t seems fairer to tax a person according to what that person subtracts from, rather than adds to, the economic pie." It is true—and seems eminently fair—that when we "subtract from the economic pie," we pay, and when we "add to the economic pie," we get paid. But *this* truth, which reflects the ordinary working of the market system, leaves unanswered—and unasked—the question about how much each of us should pay for government and about how much government we should have. The holistic notion of the "economic pie" provides little or no scope for claims about fairness. The size of the pie is a consequence of the various preferences of market participants—for enjoying leisure rather than supplying labor and for consuming now rather than consuming later. What seems fair is that each of us should make his or her own choices in this regard. The notion of fairness, however, provides no clear link between changes in the size of the pie and obligations to pay for government.

Opponents of the current tax system who base their criticism on the tenets of classical liberalism will be equally critical, if not more so, of the USA Tax. For the classical liberal, meaningful reform is better aimed at reducing taxes and, more generally, in reducing government. □

Roger Garrison is a professor of economics at Auburn University, Auburn, Alabama.

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The Future of Money in the Information Age

edited by James Dorn

Cato Institute • 1997 • 171 pages • $12.95 paperback

Reviewed by Steven Horwitz

If there's one lesson that we've learned in the computer age, it's that George Orwell was wrong: technology is not the enemy of liberty, but its friend. It was the personal computer, the fax machine and the telecommunications satellite that were central to the liberation of Eastern Europe and the Soviet Union (and China, to an extent) because they broke down the information barriers that enabled those regimes to continue to lie to their citizens. Because of their economic implications, the latest technologies, advanced personal computers, and the Internet, offer new, and perhaps greater, promises for human freedom, as the papers in this collection make clear.

All but two of the papers in the book were part of the Cato Institute's annual monetary conference in 1996. They represent a wide range of expertise and perspectives on the set of issues surrounding the implications that modern information and communication technology have for money and its associated institutions. The contributors include academics, traditional bank executives, computer experts, electronic money entrepreneurs, policy analysts, and central bankers. The papers are mostly short and accessible, and the book would make a good supplement for an undergraduate course on money and banking.

Although there are some significant points of disagreement among the authors, two beliefs seem to represent a consensus. First, as more transactions take place over the Internet and as money itself becomes increasingly "digital," it will be harder for governments across the world to monitor and control both money and the exchanges made with it. Second, this change in the nature of money is more evolutionary than revolutionary. The history of money is the story of the substitution of more abstract forms of money for more concrete ones. In this way, the use of so-called "electronic money" is not fundamentally different from the substitution of paper for commodity money, or checks for currency.

The papers in this book explore a variety of different forms that electronic money might take. The simplest is what is known as "smart cards," or "stored-value" cards. We can already see an early version of these in the form of prepaid phone cards. Imagine, however, that you had such a card that contained a bank balance and that you could spend it anywhere by swiping it through a store's or vending machine's card reader. Imagine further that you could "reload" that balance by inserting the card into an ATM, or your personal computer linked via the Internet to your bank, or through a card reader located at a place of business, or even by a direct hookup with another card user. Such a card could replace currency for almost all uses and would be far safer, as it would require a PIN or an even more advanced security device.

More sophisticated versions of electronic money would include money both created and stored in electronic form over the Internet, and used for transactions made there. Internet banks could give loans in the form of encrypted strings of digits that other computers would recognize as a money balance created by the bank. So to "spend" this money, one could simply send the string of digits to the seller of the product, who would then pass that string on to his bank, who would pass it on to the issuer, who would then verify it and credit the merchant's bank for the amount. This kind of money would have no physical form (unlike the smart card) and could be quite useful for the booming world of Internet commerce. If the encryption procedures are secure enough, this kind of digital money would be safer than using a standard credit card over the Internet, which is the way most business is done there now.

Aside from the obvious conveniences for consumers, these innovations have significant implications for monetary policy and

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central banking. Most important, the more these electronic forms of money displace central bank-created currency, the larger will be the proportion of the money supply that is privately created. Smart cards and digital currency are liabilities of the banks that created them, not the Fed. In the extreme, should paper or "analog" currency disappear, the Fed will then only control the supply of bank reserves. That power would still give the Fed the ability to create much mischief, but it would have a few benefits.

As George Selgin's paper argues, if paper currency disappears, the Fed would no longer have to worry about the degree to which the public wishes to convert its bank deposits into currency. Right now, the Fed needs to estimate that magnitude in order to correctly predict the effects on the money supply when it conducts open-market operations. In a paperless world, the Fed would have much more control over the supply of bank reserves and, as Selgin argues, could much more successfully implement a Friedman-like monetary rule. Even given the existence of a central bank, the advent of electronic currency might usher in a new era of relative monetary stability by making rule-based policies easier to implement.

The move away from paper could also lead to the even more desirable outcome of the eventual fading away of the central bank. Electronic money opens up the market for "hand-to-hand" money by putting the equivalent of a printing press in every bank's computer. Private banks will likely outcompete the Fed in such a market, further undermining the argument for having a central bank in the first place. As the sophistication of the technology increases, so will the ability of banks to manage their portfolios and so will the ease with which consumers can use progressively more abstract forms of money.

One can easily imagine a world where banks offer balances on the basis of assets such as private-sector bonds and stocks (as mutual funds do now) and customers take those balances in the form of smart cards that can be used in place of currency, checks, and credit cards. In such a world there is no need for a central bank, only a network of institutions that enable the individual banks to clear their balances among themselves. The need for a central source of reserves would disappear, as would the Fed's lender-of-last-resort function, as mutual funds cannot be "run" on the way banks can. The progress of electronic money is rendering both central banks and the national borders within which they operate increasingly obsolete.

Lest we get too heady about all of this change, it is important to realize that it is evolutionary not revolutionary. First of all, money already exists in electronic form through wire transfers, and secondly, money has been evolving away from the concrete toward the abstract since it was first used. As Larry White's paper notes, the first time balances were transferred by bookkeeping entries, money was separated from the physical world. That is, in principle, not fundamentally different from the various forms of electronic money this collection explores. The leap from paper to encoded digits is the equivalent of the leap from gold coins to paper.

In addition, there is a certain sense of going back to the future here. As several of the papers in this volume point out, the banking system we will likely end up with in the electronic future will look an awful lot like the U.S. banking system did *before* the Fed was created. In particular, hand-to-hand money issued by individual banks was commonplace in the nineteenth century, and remains the primary currency in a few countries even today. The natural response to this point is to wonder whether the electronic money future might fall victim to the same problems as the past. After all, the pre-Fed banking system is no longer with us, so it must have ended for a reason.

And this brings up the key issue facing the future: what sorts of regulations, if any, should there be on the production of electronic money? As the papers by Alan Greenspan and R. Alton Gilbert rightly note, recent scholarship on nineteenth-century banking in America and elsewhere has argued that the failures of those systems

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were largely due to poorly chosen regulations, such as limits on branch banking and the requirement that banks buy bonds as collateral for their currency issues. The history of banking is littered with such examples of often well-intentioned attempts at regulation that wind up creating unintended problems, and create a demand for further intervention. It is just such a process that has brought us the Fed and the numerous problems banks have faced in this century.

Perhaps with the advent of a new century, and new mechanisms for delivering monetary services, we will finally heed the lessons of the past and give these new technologies and institutions the freedom to develop in response to the needs of the market. The Internet and other computer technologies hold open the promise of an era of unimaginable wealth and progress. The question so well addressed by this collection is whether we can learn those lessons of the past and resist the temptation to regulate new forms of money and thereby destroy their enormous promise. □

Steven Horwitz is Eggleston Associate Professor of Economics at St. Lawrence University in Canton, New York.

Bank Deregulation and Monetary Order

by George Selgin

Routledge • 1996 • 288 pages • $69.95

Reviewed by Parth J. Shah

The classical gold standard is generally considered to be the only monetary system consistent with the principles of laissez faire. In that system, the currency issued by the government is convertible on demand into a specified amount of gold. The government's ability to issue currency is limited by the amount of gold it possesses; there is less room for the hidden tax of inflation. The government, however, retains a monopoly on the issue of currency. F. A. Hayek's pioneering essay, "Choice in Currency" (1976), offered an alternative of laissez-faire banking—a system of privately issued competing currencies. Since then, the novel alternative of free banking has attracted considerable attention from young Austrians.

George Selgin's *Bank Deregulation and Monetary Order* reprints 12 of his recent articles (two coauthored with Larry White) that further support the proposition that money is not unlike other goods and can be best supplied by the market. Though the articles were written for an academic audience, they are accessible, with some effort, to any interested individual. They exemplify Selgin's ability to write for academic and nonacademic audiences simultaneously.

The conventional view maintains that banking systems are inherently unstable and prone to crises, and therefore government regulation and control are essential. Selgin demonstrates that the conventional view is false, both theoretically and empirically. Historical evidence from several countries over a period of about 200 years suggests that "genuine banking crises have been rare in most well-studied fractional-reserve banking systems and entirely absent in several." What explains, then, the conventional view of banking? This view, like most economic theories, is largely due to British and American economists whose judgments are colored by the banking histories of their own countries. Among the countries studied, "banking crises appear to have been a U.S. specialty, with England earning second place. A global historical perspective on banking, however, indicates a generally acceptable performance."

For the period of 1793–1933, Selgin categorizes banking systems as relatively "unfree" (United States, England, France, Germany, and Italy) and relatively "free" (Canada, Scotland, Sweden, Australia, China, and South Africa). The "unfree" systems had "privileged" banks and/or restrictions on bank charters and currency issue. The "free" banking systems had multiple private issuers of currency convertible into specie. "Of forty-eight recorded crises,

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all but seven occurred in unfree systems." "[B]anking crises," Selgin concludes, "have been more frequent in heavily regulated banking systems than in relatively unregulated ones."

Government regulation of banking through monopoly issue of currency, lender of last resort, deposit insurance, branching and asset restrictions, interest-rate ceilings, and other means has made this system less, not more, stable. Inherent instability of banking systems is used to justify restrictions, but their presence is actually responsible for the instability. The restrictions, then, are self-fulfilling—they create instability which in turn justifies their existence and even expansion. In opposition to the conventional "market failure" theory, Selgin proposes a "legal restrictions" theory of banking crises and instability. Even bank-lending manias are usually caused and sustained by restrictions on banking and not by excessive "confidence" or "optimism" or "animal spirits" as the folklore alleges. Selgin supports this contention theoretically by showing the effectiveness of the clearing mechanism under free banking, and historically by examining several alleged episodes of financial "bubbles."

The infamous banking crisis of the 1930s, the cause of the Great Depression, corroborates Selgin's legal-restrictions theory. In the first two years of the crisis, most of the failures were of "small-unit banks in agricultural regions." Their failure, as those of 6,000 banks in the 1920s, was due to the fall in the relative price of agricultural products. If the United States had allowed nationwide branch banking, most of these "relative-price-induced" bank failures might have been avoided. Canada, which suffered the decline in agricultural prices but had branch banking, did not have a single bank failure in those two decades, except for one failure in 1923 involving fraud. Moreover, in response to the public's increased demand for currency, Canadian banks were able to issue more notes in exchange for deposits, but the American banks could not increase their note supply without relaxation of the restrictions by the Fed. The troubles of agricultural banks could have been largely contained if only the United States had branch banking and freedom in note issue.

Banks' inability to issue more notes prompted clearinghouses to seek permission of the Treasury "to issue clearinghouse certificates as substitutes for bank notes, as they had done during earlier crises. But they were refused permission on the grounds that such a private response was no longer needed: the Fed was capable of issuing 'plenty of money that looks like real money.' In the event, of course, the Fed's response proved far from adequate." The crisis of agricultural banks did not turn into a widespread panic until February 1933, when states began declaring bank holidays (Michigan on February 14, which led to the national bank holiday on March 6), and when rumors spread about the government's plan to devalue the dollar. On top of it all, in mid-1932, a two-cent tax on checks was imposed, which further encouraged the public to withdraw currency from the banking system. A restrictionless banking system would surely have mitigated, if not prevented completely, the Great Depression.

Many advocates of free markets (Milton Friedman, for example) consider the central bank as generally evil but absolutely necessary for smooth and efficient working of the financial system. Surprisingly though, hardly any systematic, scholarly case has been offered to support the assumed necessity of the central bank. Its desirability is simply taken for granted. Charles Goodhart's *The Evolution of Central Banks*, attempts a defense of central banks. Selgin provides a detailed and persuasive critique of Goodhart's rationale for central banks as well as his interpretation of the theory and history of free banking.

Selgin points out, among other things, that central banks of the world did not evolve "naturally" because of the economies of scale in reserve holding and the need for a lender of last resort in fractional-reserve banking. They were contrived by the fiscal necessities of states and by "advantages endowed by legislation." The economies of scale in reserve holding can other-

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wise be achieved by branch banking and non-bank clearinghouses. The need for a lender of last resort is actually created by the privileges (of note issue, access to capital and such) granted to particular banks, which weakened the other banks in the system and made them unnaturally dependent on the "privileged banks."

Chapters 1, 2, 4, and 6 explain how, without state interventions, the banking system would have evolved by using Carl Menger's theory of the evolution of money and his "conjectural historical" approach; how free banking adjusts the supply of money to its demand; and how it provides a substantially more stable monetary environment and less room for "money mischief." For nonspecialists, these chapters offer a quick but thorough understanding of the workings of a free banking system and its advantages over central banking.

Selgin addresses an important ongoing debate among economists on "productivity norm" versus "price level stability norm" (Chapters 7 and 8). This debate applies to both free banks and central banks—how free banks would behave and how central banks should conduct their monetary policy. The central bank of New Zealand is now required by law to maintain stable prices or zero inflation. Stability of prices has become a dominant concern of many a central bank. The productivity norm, which Selgin prefers, suggests that prices be allowed to fall in response to increases in productivity of the economy. Selgin contends that as the supply of goods and services increases, the downward pressure on their prices should not be countered by expanding the money supply to keep them stable.

Suppose unexpected technological improvements in the production of some goods lowers their cost of production. That would, under competition, lead to a decline in the prices of those goods relative to other goods. Which norm requires changes in more prices? Under the productivity norm, prices of only those goods whose productivity has increased must fall; all other prices remain the same. Under the price level stability norm—which is identical to keeping a consumer price index constant—prices of all other goods must be raised relative to the prices of goods whose productivity has increased. Thus, the productivity norm, Selgin maintains, is superior to its commonly advocated alternative.

I am sure that this book will encourage the reader to further explore the crucial field of free banking—crucial to the evolution of a laissez-faire society. □

Parth Shah is an economics professor and president of Center for Civil Society, New Delhi, India.

The Origins of Virtue

by Matt Ridley

Viking • 1997 • 295 pages • $24.95

Reviewed by George C. Leef

It is not uncommon for those who have been trained in economics or philosophy to arrive at the conclusion that big government is a dangerous menace, but it is an event worth noting when a scientist comes to that conclusion. The event becomes even more noteworthy if the scientist has done us the favor of putting his thoughts into a delightfully readable book. Matt Ridley has done just that.

Ridley is an Englishman, trained in zoology and equipped with an excellent grasp of many other disciplines—the book romps through anthropology, history, game theory, economics, genetics, and more. *The Origins of Virtue* is a search for answers to these questions: "If life is a competitive struggle, why is there so much cooperation about? And why, in particular, are people such eager cooperators? Is humankind instinctively an anti-social or a pro-social animal?" His answers echo the teachings of Adam Smith, David Ricardo, F. A. Hayek, and other defenders of freedom.

Cooperation rather than aggression, Ridley argues, is in the long-run interest of those individuals and groups that practice it. Cooperators fare much better in the struggle for survival than do aggressors or those

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that attempt self-sufficiency. Among the evidence Ridley marshals for this conclusion are the many "prisoner's dilemma" computer tournaments that have been run, wherein the winning strategy turns out to be one of reciprocity: "Cooperate with me and I'll cooperate with you; cheat and I'll retaliate." He maintains that this predisposition has become deeply ingrained in the human brain (most of them, anyway). "[T]his instinctive cooperativeness is the very hallmark of humanity and what sets us apart from other animals."

Other animal species can cooperate to some extent within small groups, but we humans have figured out how to cooperate on a vast scale. One of our most important kinds of cooperation is, of course, trade. Ridley's Chapter 10, "The Gains from Trade," is an excellent discussion (if you teach principles of economics, you'll find some good material for lectures or exams there), but it leads to an even more important point. Trading requires trust. Maintaining a reputation for honesty therefore is extremely important and that is why, the author concludes, people generally forbear from dishonesty and aggression. Even if, on a cold utilitarian calculus, such behavior would appear to pay off, most people resist. Ridley attributes this to millennia of human social development that has made us very reputation-conscious.

Alas, we also have our bad instincts, especially a tribalistic "us versus them" proclivity that demagogues have been exploiting since time out of mind. So, what can we do to maximize the good that comes out of our cooperative side and minimize the damage that can be done by our aggressive side? Answer: minimize the power of the state. Contemplating the behemoth states of the current time and of the past, Ridley writes, "I do believe that there have been glimpses of a better way, of a society built upon voluntary exchange of goods, information, fortune and power between free individuals in small enough communities for trust to be built. I believe such a society could be more equitable, as well as more prosperous, than one built upon bureaucratic statism." Give Mr. Ridley an A.

Big government opens up a new means for people to get what they want, namely politics. Politics ultimately reduces to the use of force, however. The more we politicize society, the more we lure people away from voluntary, cooperative action. Ridley's discussion of the effects of the British welfare state is illuminating: "Because of its mandatory nature the welfare state encouraged in its donors a reluctance and resentment, and in its clients not gratitude but apathy, anger or an entrepreneurial drive to exploit the system. Heavy government makes people more selfish, not less."

And there is much to praise in this book besides the author's sensible conclusion about the proper role of government. Plenty of fashionable notions about man and nature receive smashing blows, for example the endlessly repeated idea that simple, native peoples have a built-in environmental ethic. There is overwhelming evidence to the contrary. Or, on the subject of wildlife conservation, the "green" penchant for demanding government control takes a knockout punch. Clear, defendable property rights, Ridley shows, are far more effective. (If you want to try a sample of this book, start reading Chapter 11, "Ecology as Religion" and I'm confident that you'll want to read it all.)

Ridley is a talented writer and *The Origins of Virtue* has a "page-turner" quality to it. I hope that we will be hearing more from him in the future. □

George Leef is book review editor of The Freeman.

Pick a Better Country

by Ken Hamblin

Simon & Schuster • 1997 • 251 pages • $23.00

Reviewed by James A. Woehlke

The plot is now familiar: a youth spent courting liberal utopia morphing into a conservative middle age. Ken Hamblin's

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book is a patriotic romp, as he shares his faith in the enduring vibrancy of the American Dream. Along the way, a lot of leftist myths and clichés crash and burn.

Hamblin was raised on welfare by his mother, a first-generation immigrant from Barbados. He didn't relish public assistance; in fact, he hated it. He hated his mother's need to mooch off relatives, to beg credit from the local grocer, and to move frequently. He especially hated being forced to wear his mother's shoes to school one winter because there wasn't money to get him his own shoes. Unlike so many of today's urban poor, however, Hamblin's mother desperately wanted *not* to be on welfare and instilled this desperation in her son.

His first escape from poverty was courtesy of 1950s radio. Besides being entertained by "The Lone Ranger" and "The Shadow," Hamblin was moved by Jean Shepherd's inspirational stories of life throughout America. He dreamed of living outside his native Brooklyn. At 17, Hamblin joined the military, and got his first taste of life outside New York—and his first exposure to overt racism. He didn't permit himself to be victimized, but laughed off the racist pettiness and moved on.

Hamblin's first jobs after the service were affirmative action opportunities, but he was driven to succeed on his own merits, first as a journalistic photographer, then a documentary producer, and ultimately a successful talk show host and columnist. (Some call him the black Rush Limbaugh.)

Readers are cautioned. As an "unassuming colored guy," Hamblin, who is renowned for his brash approach to social issues, has the luxury of callin' 'em as he sees 'em. He has little patience for people of color who claim to purvey authentic black culture while espousing hatred, disrespect for women, and glorification of the drug culture. Harsh epithets are also reserved for those who make welfare their lifestyle and those who reap huge political benefit from championing the welfare dependency of others.

He saves the strongest vitriol, however, for the white intelligentsia who collaborate to preserve the "Myth of the Hobbled Black," the idea that inner-city social conditions hobble poor people of color the way chains hobbled black slaves 150 years ago. He accuses them of waging a "War on Prosperity." Modern liberals, Hamblin maintains, needed proof that America doesn't work, so they actively acculturated people of color to see themselves as victims of an evil capitalist system. The liberals' social experimentation and their unwillingness to hold inner-city sociopaths responsible for antisocial behavior have left a bloody trail of murdered and maimed, inner-city victims. This is a racism of the most insidious kind!

Hamblin's message, for black, whites, everyone, is that in a free environment, each of us must decide if we will be winners or losers. "Once they decide they're not going to be losers, nothing—not the KKK, not the white citizens council, not any group of bigots, not the old laws of apartheid in South Africa—nothing can stop them because they will be able to dig deep in their souls to acquire the strength to carry on. Welfare and liberal indulgence can never offer that kind of can-do attitude." May we all take these words to heart. □

James Woehlke is a CPA and freelance writer.

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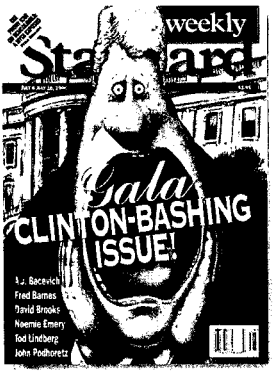

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